

NOVEMBER 1985

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**Funny Business:  
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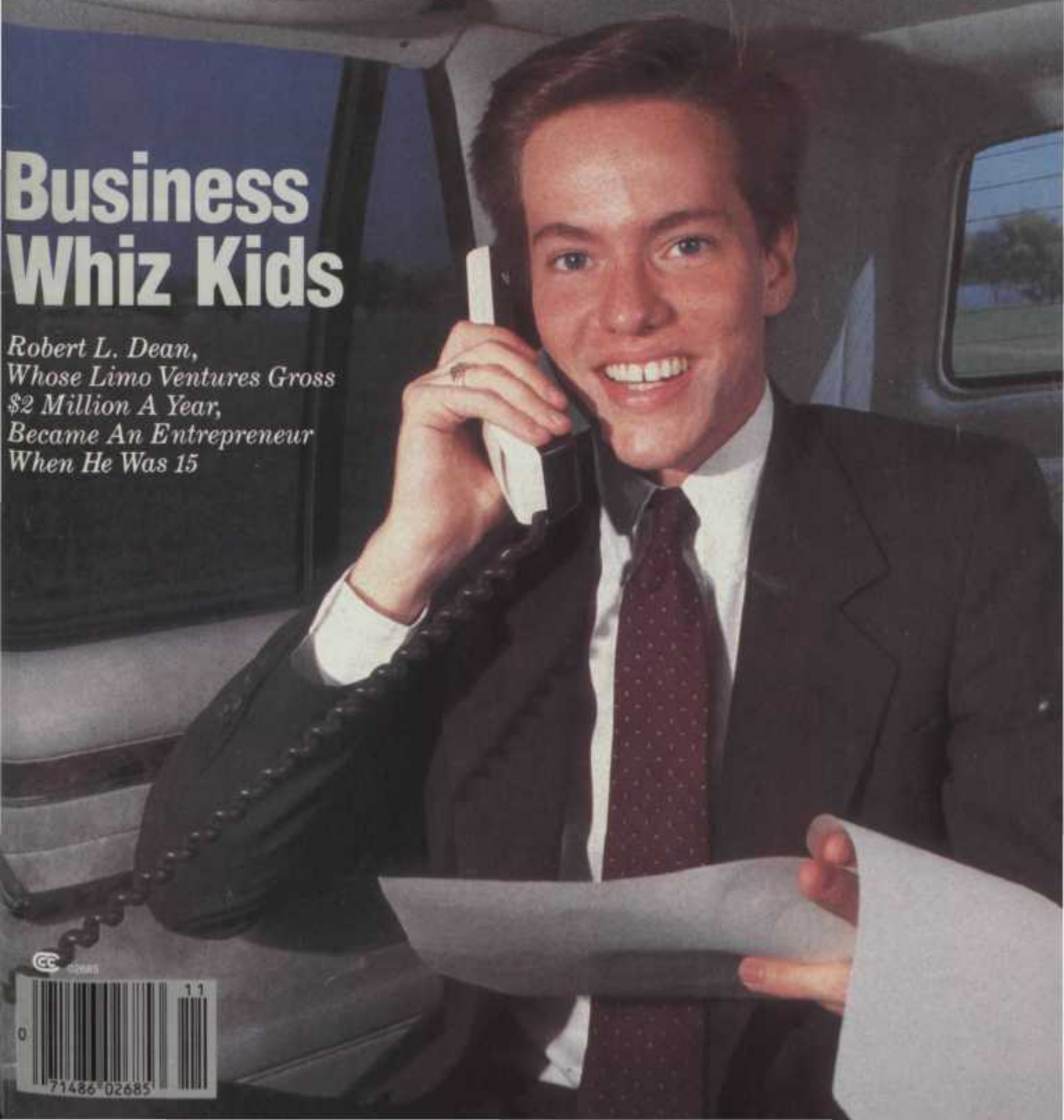
**Small Retailers  
Go High Tech**

**Franchisees' Diaries  
Tell It Like It Is**

# Nation's Business®

## Business Whiz Kids

*Robert L. Dean,  
Whose Limo Ventures Gross  
\$2 Million A Year,  
Became An Entrepreneur  
When He Was 15*



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# Nation's Business®

Published by  
the U.S. Chamber of Commerce  
Washington, D.C.

## THE NATION'S BUSINESS

*House Ways and Means Committee Chairman Dan Rostenkowski is pressing for swift action on a tax reform package. (Page 13)*



PHOTO: UNIPHOTO

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*that have made Dean an example of a new crop of entrepreneurs who have business savvy far beyond their years.*



PHOTO: T. MICHAEL KEZA

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*You might find them in white collars or blue jeans, in an isolated computer lab in Silicon Valley or commuting between offices in New York and Washington. These are the teen-age entrepreneurs, who get down to business at a point in their lives when you would think they would be concentrating on other things. Besides their youthful optimism, they have in common ingenuity and an inner drive that have taken them beyond traditional money-making ventures—like selling lemonade, babysitting and delivering newspapers—into the bona fide business world.*

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PHOTO: T. MICHAEL KEZA

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PHOTO: DAN CORRODUS-LIAISON

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PHOTO: T. MICHAEL KEZA

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COVER PHOTO: T. MICHAEL KEZA

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# A Tangled Separation

In Nebraska the question involved a photograph on a driver's license.

In Pawtucket, R.I., and Scarsdale, N.Y., it involved a creche at Christmas time. In Williamsport, Pa., 45 high school students formed a Bible study club. In Grand Rapids, the city sought to provide supplementary classes in parochial schools. In New York, the issue dealt with aid to educationally deprived children from poor families. In Spokane, a blind young man sought a federal rehabilitation grant to cover his college tuition. In Torrington, Conn., Donald Thornton refused to work on Sunday. In Mobile, Ala., Ishmael Jaffree asked an injunction to nullify Alabama's "minute of silence" law.

What in the name of God is going on? It is a fact of life at the U.S. Supreme Court that litigation comes in waves. We will see a series of cases on pornography; then the Court decides it has heard enough on that topic. A wave of antitrust cases will come along, or a wave of affirmative action cases or a wave of criminal cases involving rules of evidence. But in the delicate area of church and state relations, we are seeing an extraordinary pattern of law developing.

"Pattern" probably is the wrong word. Over the past 25 years the High Court has handed down opinions in nearly 40 cases arising under the First Amendment's clauses relating to religion. The 1984-85 term saw half a dozen such cases. The 1985-86 term, just now under way, will see a few more. Every time the Court applies its pattern to the facts, we have come to wonder if the tailoring will work.

The pattern, such as it is, supposedly was fixed in 1971. State laws or local ordinances that in some fashion affect religion must have a secular legislative purpose; their effect must be neither to advance nor to inhibit religion; and they must not foster an excessive entanglement of church and state. All clear? Bosh. The law is about as clear as a bowl of chili. The justices have split like kindling on the key cases.

Take the matter of Frances Quaring. She is a Pentecostal who lives on a farm a few miles from Gibbon, Nebr. She believes deeply in the biblical command against graven images; in support of that conviction she has no pho-

tographs in her home of her wedding, her children or anything else. When Nebraska enacted a law requiring photographs on drivers' licenses, she went to court.

A U.S. district court held that Nebraska had legitimate reasons for its requirement, but ruled that to grant Mrs. Quaring an exception would not

*Nothing suggests that the wave of church and state litigation has run its course.*



put an unbearable burden on the state. An injunction was granted forbidding the state from enforcing the law in her case. A divided Eighth Circuit affirmed. Last June the Supreme Court split down the middle, 4-4, and because Justice Lewis Powell was out sick, the decision was laconically affirmed by an evenly divided Court.

The same thing happened in the matter of the Scarsdale creche. In 1984 the Court had ruled 5-4 that a creche in Pawtucket fit within the pattern. The town of Scarsdale denied a request by a private citizens' committee to erect a creche at Boniface Circle, a public park. The Second Circuit ruled the town trustees were in error: The committee had the same right to religious expression that other groups have to nonreligious expression. The Supreme Court,

unable to form a majority, feebly affirmed 4-4.

Rights of religious groups, as contrasted with other groups, will be argued this term in the matter of Williamsport Area High School. Twice a week, before the day's instructional periods begin, the school authorizes student clubs to meet in vacant classrooms.

A chess club, a Spanish club, an archery club, a birdwatching club—all these presented no problem, but when 45 students formed a Bible study club, counsel to the school board said no. What's the constitutional difference? Does the pattern fit?

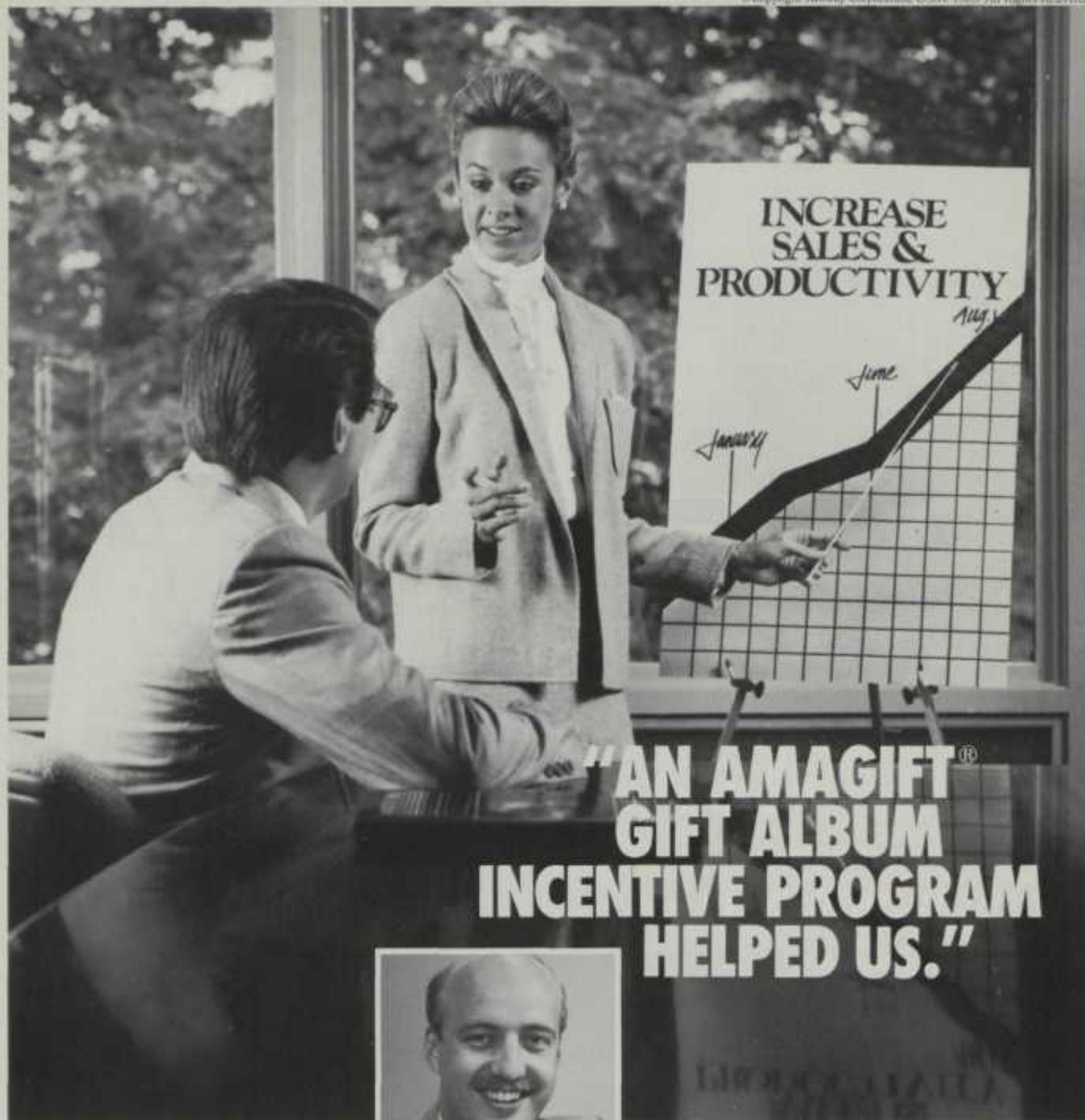
In a dozen cases the Supreme Court has knocked down efforts of the states to provide aid to pupils in church-related schools. It knocked down Grand Rapids and the City of New York this past term. But in other years the Court has approved transportation subsidies and the loan of textbooks. In 1983, again by a vote of 5-4, the Court upheld a Minnesota law permitting parents to deduct from their income tax a part of the tuition paid to parochial schools.

The Court will hear this term from Larry Witters. He is 29 and blind and wants to become a minister. If he wanted to become a plumber, a mechanic or a salesman, he would qualify routinely for a vocational rehabilitation grant. The state turned him down. "It is not the role of the state to pay for the religious education of future ministers," said the Washington Supreme Court. But in 1971 the U.S. Supreme Court approved federal funds for construction at sectarian colleges, and in 1973 it approved South Carolina's bonds to aid the Baptist College in Charleston.

So far the Court has rejected every state law that contains even a trace of a hint of an inkling of approval of school prayer, but this past term five justices indicated that if Alabama's legislature hadn't tried to out-cute the Court, the minute of silence act might have survived.

Ultimately, such a state act will be tested again, for nothing suggests that the wave of church and state litigation has run its course. We've argued these issues since Congress hired chaplains in 1789, and we'll be arguing them for years to come. ■





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# Not Everyone's Type

Re: "The Dvorak Keyboard: Is It Your Type?" [August].

The article states: "In fact, since its invention, the Dvorak keyboard has been used every time an international typing speed record has been set."

That statement is inaccurate, or perhaps even intentionally misleading, since it does not say specifically that the Dvorak keyboard was used by the winners of such contests.

The International Commercial Schools Contest was organized in 1933 and discontinued in 1941. During that time, in the professional 60-minute contests, records were set by Albert Tangora (142 net words per minute), using a Royal Standard, and Margaret Hamma (149 wpm), using an Electromatic.

I can find no record that an International Contest was won by someone using a Dvorak keyboard.

If Margaret Hamma could type 149 net words per minute for an hour on the QWERTY keyboard, I would not consider that keyboard slow. The obvious conclusion instead is that most typists are too slow.

W.L. Tucker

Professor of Business Education  
Virginia Commonwealth University  
Richmond, Va.

**Editor's note:** According to a 1980 article in the *Journal of Information Processing*, Dvorak-trained typists "won most of the first, second and third places in the International Commercial Schools Contest from 1933 to 1941.... That the winners used [the Dvorak keyboard] was often very carefully suppressed."

## Balancing The Scales

In connection with the current discussion of comparable worth [Congressional Alert, October], I would like to suggest a new concept: comparable work for comparable pay.

If all of the liberal politicians who seem to think that the employee has all of the rights and that employers owe them jobs can put such a concept into practice, they will greatly assuage my concern over the socialistic trend of recent years.

Nothing is ever said about what an employee owes an employer, who may

have scratched and fought and worked 16-hour days for decades to become one—only to have the socialists in Washington determine that, notwithstanding this, the employer owes most of the pie to his 9-to-5 employees, who have put up no capital, worked no uncompensated overtime and spent no sleepless nights worrying about where the money for the next payroll is coming from.

William G. Price  
Chairman and Chief  
Executive Officer  
First Bank of Immokalee  
Immokalee, Fla.

## The Battle Over Burgers

Re: "McPentagon Fries Restaurateurs" [Washington Roundup, October].

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## LETTERS

to defend the right of their critics to make a profit. However, if it were not for the Army bases that are so roundly criticized by merchants in towns such as Hinesville, Ga., business establishments would not have been put there in the first place.

There are many areas of the country that would welcome such a military installation. Move it to southern Virginia and we won't fuss about the soldiers eating Whoppers.

*Rep. Dan Daniel (D-Va.)  
Washington*

## Just Desserts

Re: "Avoiding Pension Shock" [October].

What kind of executive earning \$75,000 annually, like the fictional Harry Cooper in the article, waits until his retirement day to ask his company how much his benefits will amount to?

The article should have been aimed at the \$15,000-a-year janitor cited, although even he would probably be more businesslike than Harry Cooper—who clearly merited the sharply reduced retirement income that he received.

*William R. Gordon  
Manager  
Albany Trading Corporation  
Miami*

## Turning The Tide

"Keeping Afloat In The Import Flood" [September] was right on the mark.

I'm tired of hearing that the United States is second best, and I'm tired of getting beat up in the marketplace. We at Litton Microwave are surviving in this country by producing the best microwave we know how for the least amount of money. Our foreign competitors may have us down, but we're a long way from out.

*Wayne L. Bledsoe  
President  
Litton Microwave Cooking  
Minneapolis*

## Inspiring Examples

To me, the Making It section is more inspiring than reading a book on positive thinking, because it profiles indi-

viduals who have put courage, smarts and energy into creating their own successful businesses. I hope you continue that section as long as *Nation's Business* is published. In fact, the more entrepreneurial profiles, the better!

*Sharon Lee Tenney  
Cheektowaga, N.Y.*

## Wrong On The Button

Re: "Push-Button Banking" [September].

Automated teller machines are great, but I doubt seriously that each of Bank of America's 1,200 ATMs "averages 11 million transactions a month." That works out to over 250 transactions a minute.

*Frank P. Clarke  
President and Chief  
Operating Officer  
First National Bank  
of the Quad Cities  
Rock Island, Ill.*

*Editor's note:* That sentence should have read that Bank of America's more than 1,200 ATMs handle 11 million transactions a month all together; each machine handles, on average, 9,000 transactions a month.

## Damming The Flood

In Congressional Alert [August], you recommend to your readers that they oppose any legislation that would involve employers in the enforcement of immigration laws by requiring them to check the eligibility of applicants for employment.

You indicated that if such a requirement were enacted, employers would be doing the government's work.

Having worked in personnel offices in private organizations, I believe that assisting the federal government in this way would not add appreciably to the workload. Moreover, there are reasons to believe that such cooperation would help American society by many orders of magnitude over what the costs to the employer would be.

In California, I have seen firsthand what the hiring of illegal aliens can do to the economy.

At one time while I was living there, a few years ago, the unemployment rate among American citizens was over 9 percent in the Los Angeles area. But thousands of illegal aliens were employed—and paid at rates that forced them to live jammed together and did little to boost the overall economy.

*Eugene B. Crowe  
Singer Island, Fla.*

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# Business Outlook

*Looking good in the fourth quarter; new household formation up.*

## Upbeat Signals For The Final Quarter

*President Reagan welcomed recent favorable economic signals as fresh validation of his policies.*

A series of upbeat signals marked the early weeks of the final quarter, producing a growing consensus that the last months of 1985 will not see the serious downturn that many forecasters had been predicting.

This quarter began with the announcement that the principal gauge of future economic activity, the federal government's index of leading indicators, had surged a healthy 0.7 percent in August. More good news in the same announcement was the increase in the July index, originally reported at 0.4 percent, to the same 0.7 percent level as August.

The upbeat report on the leading indicators came on top of a drop in unemployment in August and a resurgence of consumer spending as fall arrived.

Other developments supporting the case for optimism in the economic outlook included a sharp increase in resales of single-family homes and a government report that formation of households is accelerating even faster than the growth rate of the population.

The National Association of Realtors said that the seasonally adjusted annual rate of home resales was 3.43 million units, the highest level in nearly six years. The association said lower interest rates and a continuing strong demand for home ownership combined to produce the surge of buying.

And the Census Bureau released an analysis showing that household formation grew 7 percent between 1980 and 1984, while the total population increased only 4.2 percent. (See separate item, below.)

The Reagan administration welcomed the latest report on the leading indicators, which came at a point when the administration was again being criticized for excessive optimism on the economy. The President's chief spokesman, Larry Speakes, said the figures "show the world what can be accomplished when the government lowers taxes and cuts regulations."

Economic optimists were particularly cheered by the strong showing of what



PHOTO: JUDITH SZLAK

are considered the most significant of the indicators—the length of the average workweek, trends in unemployment claims, orders received by manufacturers and building permits.

On the other side of the debate, the National Association of Business Economists produced what amounted to a mixed perspective on the economic outlook.

It included a bad news/good news appraisal of prospects for a recession next year. The association reported that its most recent survey showed 52 percent of its members expecting a recession by the end of 1986. The good news, however, was that the ranks of those predicting such a serious downturn have decreased 60 percent since a survey taken a year ago. At that time, 87 percent of the members polled predicted a recession next year.

Kathleen Cooper, vice president of

the association, said the slowdown of the past year had helped the economy make adjustments that should help prolong the present expansion.

There is a more marked difference between the business economists and the administration, however, on next year's economic forecast.

The administration is looking for a 4 percent gain in the gross national product in 1986. The most recent survey of business economists shows that they expect GNP to rise 2.7 percent next year.

By way of contrast, the economy grew 6.8 percent last year.

## New Households, New Markets

Nearly 5.6 million households have been formed in the United States since 1980, which is good news for businesses ranging from home builders to manufacturers of pots and pans.

A new report by the Census Bureau shows that households are being established at a faster rate than the population is growing—7 percent and 4.2 percent, respectively.

The bureau uses the 1980 census figure, which showed 80.4 million households as of July 1, 1980, as the basis on which growth is calculated. That total jumped 2.2 million by July 1 of 1981.

Under the Census Bureau's definition, a household can be one person living in a one-room apartment, or a large family living in a big house.

Whatever the size or type of shelter, the formation of a household usually generates consumer demands for furniture, appliances, utensils and other items. And there is often a progression that keeps real estate markets active, as households of one or more persons move from smaller to larger apartments, from apartments to town houses or single-family homes.



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# Washington Roundup

*An uncertain calendar on tax reform; a new look for U.S. checks; immigration reform moves to the House.*

## Cloudy Crystal Ball On Tax Reform

President Reagan is using his formidable communications skills to rally grass-roots support for his tax reform plan.

And Chairman Dan Rostenkowski is pressing the House Ways and Means Committee to move full steam ahead on the complex, controversial measure.

Despite this activity by two of the capital's most influential figures on revenue legislation, both the timing and outcome of congressional consideration of the tax overhaul plan remain in doubt.

The President has been receiving a warm response from crowds he has addressed on behalf of tax reform, and the issue remains a top priority with him personally.

But tax experts in the Washington-based business community say the highly favorable reaction to his direct appeal has not been translated into congressional support.

On the contrary, says a business expert close to the issue, members of Congress are hearing primarily from constituents who want to preserve tax breaks earmarked for elimination under the Reagan plan.

Congressional tax-writers thus face a difficult challenge. They must try to accede to constituents' pleas. And they must meet the generally accepted goal of keeping the tax bill revenue-neutral, which means that any provisions cutting revenues should be offset by others raising them.

Business organizations are growing increasingly concerned, as a result, that Congress might be tempted to retain tax breaks with broad political appeal and maintain revenue neutrality through such steps as setting the top individual tax rate above the 35 percent recommended by Reagan.

Any such action could set the stage for a stalemate, however, because the President has said that setting the top marginal tax rate above 35 percent is not negotiable.

Other alternatives might be actions forcing business to bear the brunt of

*Chairman Dan Rostenkowski of the House tax-writing committee hopes to produce a tax reform bill this year,*

*but whether his goal will be met remains in doubt on Capitol Hill.*



PHOTO: UNPHOTO

making up any revenue shortfalls that develop from giving or retaining tax breaks in other sectors.

Congressional strategies and tactics on the issue will become apparent in detail, now that the Ways and Means Committee has actually started to draft a bill.

Chairman Rostenkowski hopes to wind up action by the middle of this

month, but his timetable is not considered realistic in view of the complex factors involved in tax reform.

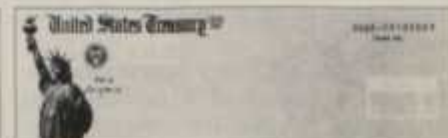
While White House officials continue to reflect the President's view that tax reform remains a pressing issue for the general public, there is no expectation that Congress will be anywhere near enactment of a final bill by its scheduled recess late in the month.

## That Check Really Is From Uncle Sam

U.S. government checks are getting a new look for the first time in 40 years.

Starting next month, they will be of lighter paper stock and pale blue and peach, instead of green. Also, they will carry a picture of the Statue of Liberty instead of the official seal of the Treasury Department, which issues all federal checks. W.E. Douglas, commissioner of the department's financial management service, says the new

*Government checks are getting a new look, which includes a picture of the Statue of Liberty.*



check will have more than a dozen features making it more difficult to counterfeit or alter than its predecessor.

Those features are in the design of the check and in the ink and paper.



## THE NATION'S BUSINESS

## Washington Roundup

## Immigration Issue Moves To House

Despite major compromises made in the Senate, immigration reform legislation remains a highly controversial issue as far as the House is concerned.

The version passed by the Senate eliminates one of business' chief concerns—mandatory recordkeeping on steps taken to verify the citizenship status of job applicants.

Chief sponsor of the bill was Sen. Alan K. Simpson (R-Wyo.), who has been trying for some time to put together immigration reform legislation that could win approval of both houses of Congress.

As approved by the Senate, his measure would, for the first time, make it illegal for employers to hire people they know are illegal aliens. But employers would have the option of keeping or not keeping records on the extent to which evidence of citizenship was checked. The evidence could be a U.S. passport, driver's license or naturalization certificate.

If an illegal alien was found on a payroll of four or more employees, the employer would be presumed to have

*Officers of the U.S. immigration service are shown at work in Southern California, an active area for them.*



PHOTO: TONY MULLARD—PICTURE GROUP

hired the alien knowingly. But records kept voluntarily by the employer would constitute an affirmative defense.

Efforts are expected in the House, however, to restore the mandatory recordkeeping requirements opposed by business and to set up complex federal machinery to prevent discriminatory actions in implementation of a new immigration law.

## Protest Re-ignites Unitary Tax Issue

The Reagan administration, in the wake of California's refusal to abolish its unitary tax law, has come under new pressure from abroad to act against such state levies.

White House policy has been to give states using this revenue source time to abandon it voluntarily. The course was adopted as an alternative to supporting legislation that could conflict with the administration's federalism philosophy, which calls for shifting power from Washington to state capitals whenever possible.

In applying a unitary tax, states consider all activities of a multinational corporation, not just the company's operations inside the state's borders. This country's major trading partners have argued that such a tax is illegal.

A Treasury Department panel headed by Donald Regan, then Secretary of the Treasury, looked into the issue and

announced that the administration would press for preemptive legislation unless states that had unitary taxes repealed or modified them by last July 31. Oregon, Florida, Massachusetts, Indiana and Colorado did so.

The issue flared up recently when the California legislature adjourned without changing its unitary tax law, and Britain threatened to retaliate.

Margaret Thatcher's government has raised the possibility that it will implement a law under which American firms with subsidiaries in Britain could lose up to \$700 million in tax credits.

A spokesman for the British embassy in Washington says Britain is reluctant to take such action, but "pressure to do so may build if the [U.S.] federal government does not come up with a clear statement" of its intentions.

In addition to California, five other states still have unitary tax laws.

## Capital Update

### Road Funds Cleared

Congress has authorized release of \$4.8 billion in federal highway funds for the new fiscal year that began this month. The money will come from the Highway Trust Fund, which is financed by gasoline taxes and other levies paid by motorists.

Congressional action on the authorization bill without protracted debate was in marked contrast to the past two years, when the authorization measures were held up in sharp disputes over specific projects.

Some members warned, however, that future highway spending bills might come under the budget ax.

### Insulating Social Security

Congress appears to be on its way toward removing Social Security from the federal budget six years ahead of schedule. The most visible effect of the move: The retirement program would no longer be the highly volatile political issue it has been in recent years.

The principal Social Security programs, retirement and disability payments, are financed from trust funds supported by payroll taxes. Until 1969 the trust funds were separate from regular federal budget operations. Their incorporation into the regular budget made it possible for budget planners to lower the nominal deficit by offsetting it with surpluses in the Social Security account.

Some skeptics said that President Johnson wanted to use the retirement fund surpluses to hold down deficits caused by Vietnam War costs.

### Never Too Late

Business groups continue to press for enactment of legislation that would allow employers to pay summertime employees less than the minimum wage. The target for implementing the plan is now the 1986 vacation season. Advocates of the legislation cite studies showing that it would sharply increase the number of youths hired during school vacation.

They see the youth wage as a major step toward correcting the problem of a particularly high jobless rate among youths. This problem is especially acute among minority youths, who have the highest unemployment rate.



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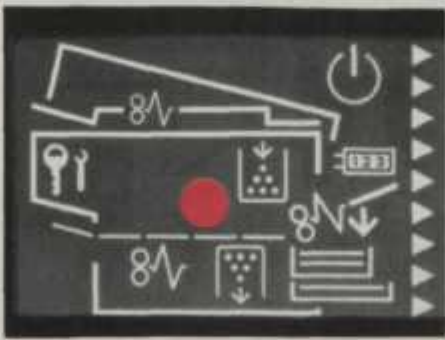
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# 3M

# Small Business Report

By Mary-Margaret Wantuck

## Make a Match Through SBA

An unheralded and little-known role of the Small Business Administration is that of matchmaker and networker.

Through its Office of Private Sector Initiatives, created in November, 1982, the agency has actively forged partnerships among local and state governments, associations, foundations, large corporations and small firms to help small businesses.

"For too long, SBA was focused on government assistance," says Kenneth Boxer, an agency spokesman. "That's changed. Every project that my office works on is done entirely with private-sector funds."

Some of SBA's projects include:

- Co-sponsoring a series of small business conferences around the country.
- Working with the New Jersey Economic Development Authority, private corporations and the state's tool and die and machinists' trade associations to make state-of-the-art technological know-how and equipment available to small firms in the tool and die field.
- Helping in the development of a Mexican marketplace to anchor an important corridor near downtown Dallas and serve as a landmark of that area's commercial revitalization.

More than 60 big companies have taken part in the program. Among them: Control Data Corporation; Peat, Marwick, Mitchell & Company; Chevron Oil and Crown Zellerbach. Federal Express and Minnesota Mining & Manufacturing Corporation have sponsored seminars on how to encourage entrepreneurial activity within companies. Arthur Young & Company has offered sessions on strategies owners can adopt to avoid common problems of small business.

Another of the companies, Bell Atlantic, has been sponsoring one-day marketing symposiums for small businesses throughout the states it serves. "We have the marketing expertise and wanted to share it with our small business customers," explains Bettianne Welch, Bell's staff supervisor of marketing de-

*SBA's matchmaking service between big and small firms has been informative for book distributor Jerry Canizzaro, who went to Bell's marketing seminar.*



PHOTO: T. MICHAEL REZA

velopment. "We hoped that in the process we'd get to know them a bit better so we could provide them with the products and services that meet their needs."

Bell claims that it can teach owners more about marketing in one day than they might accumulate in five years running the business. Teachers include Bell employees, outside consultants and small business people who have expertise in telemarketing, direct mail, direct response, trade shows, advertising and public relations.

Jerry Canizzaro is president of Boston Advisory Group, a financial planning and investment consulting firm in Oakton, Va. He attended one of Bell's seminars and came away "very informed."

"I've started a book distributing company," he says, "and I wanted to find out what the professionals are doing in

*The Bell seminar gave Clare Mountfort, publicity director for a small local orchestra, the direction to mount her first telemarketing campaign.*



advertising, public relations and direct mail. I picked up some good pointers like the do's and don'ts of direct mail and how to do test marketing."

Clare Mountfort is director of public relations for the Fairfax Symphony Orchestra in McLean, Va., which can use SBA services. "Being small, we have limited resources," she notes. "Our ads, for instance, must be extremely well thought out and cost effective. This seminar gave me a lot of direction on media placement."

Mountfort says that the direct mail session gave her the courage and knowledge to mount a four-day telemarketing campaign, something the orchestra had never attempted before.

Approximately 2,200 small business owners will have been exposed to Bell's seminars by the end of this year. The company plans to hold six more symposiums in 1986.



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# The Business Whiz Kids

By Cynthia Poulos and William Hoffer

*John Shorb, who began mowing for hire when he was a sixth-grader, is—at 19—president of a lawn service that has five full-time employees,*

*four part-timers and 120 regular customers. Young Shorb has big plans for the future.*



PHOTO: T. MICHAEL KEZA

**A**t the age of 15, Robert Lewis Dean borrowed \$1,500 from his parents, bought a 1972 Cadillac, taught himself how to fix it up and sold it at a profit. That venture five years ago was the beginning of an entrepreneurial career that has seen him start a business at 16, sell it for \$100,000, launch another business—and then launch a series of others.

Dean is a prime representative of a new crop of entrepreneurs, business whiz kids who are exhibiting a clarity of purpose that belies their tender years.

They come from family environments that range from nurturing to indifferent. Some find a niche in traditional businesses, while a considerable num-

ber have gone high tech. You might find them in white collars or blue jeans, in an isolated computer lab in Silicon Valley or—like Dean, who is prospering by providing the prosperous with limousines and chauffeurs—commuting between offices in New York and Washington, his hometown.

Some are content with modest revenues; some—again like Dean, whose gross business revenues will total about \$2 million this year—are clearly after big bucks.

Some praise the encouragement and support they have received from parents, friends and teachers; some chafe at the obstacles encountered by youth, such as difficulties in negotiating a line of bank credit.

What accounts for the precocity of these young people?

Surveys have revealed that more than half of all entrepreneurs are first-

born children, and many are from immigrant families. Some are primarily motivated by money, but most are driven simply by the desire to shape their own destinies. Given the individualistic definition of the entrepreneur, any generalization is suspect.

Certainly, all possess qualities that one might expect in such an individual: ingenuity, a good intellect, a healthy sense of self, inner drive and a sense of purpose.

"It's not luck; it's hard work," says Dean. "If you work hard, you'll be successful—that's what I always say. You can't rely on anybody but yourself."

Perhaps the most engaging quality of the teen-age entrepreneurs is effervescent optimism. Reared in an era of unprecedented exposure to news of disaster, terrorism, holocaust, famine and threat of nuclear mayhem, they nevertheless developed into positive-

*Cynthia Poulos is a California freelance writer. William Hoffer is a freelance writer based in Virginia.*



*What in the world is going on here? Successful entrepreneurs have been starting their enterprises at 15, at 14... at 8! This article examines a growing American phenomenon.*

thinking achievers. They are aware of the obstacles, but they are far more interested in the opportunities.

They fell in love with the business world early and quickly evolved beyond the normal childish money-making ventures of selling lemonade, babysitting and delivering newspapers to become bona fide business persons. They are products of a generation raised to appreciate the art and science of business.

Says Verne C. Harnish, national director of the Association of Collegiate Entrepreneurs: "The young entrepreneur is emerging as this generation's hero. There's beginning to be a movement to introduce entrepreneurship on the high school, junior high school and even elementary school level. Society is going through a transition. We're entering an information age."

**T**hat brave new world of accessible information makes it easier to jump into life's mainstream earlier. Today's teen-ager is fully exposed to a material world. The basic techniques of business are no longer a mystery reserved for the initiated. And in addition to traditional businesses, Harnish notes, "there are all kinds of opportunities that weren't there before, and young people are finding that they're just as competent as their elders to seize them."

When Robert Dean sold that Cadillac he had fixed up, he decided an opportunity was staring him in the face. And he decided to seize it.

He opened Coach House Cars, Inc., an Arlington, Va., antique auto business, and kept his hands greasy as he labored to restore classic American vehicles ranging from a '42 Packard to a '57 Thunderbird. He sold the business when he was 17, after grossing \$600,000 in a single year.

At 18, he abandoned plans to go to college. He opted instead to open Dynasty Limousine Corporation, offering luxury limousine service to high-powered corporate clients. "I had a little bit of difficulty at first," he recalls.

*Like other teen-agers, the Mortensen twins, Keith (left) and Craig, are playing an exciting role in the information revolution. They create*

*computer graphics for a variety of clients, both in this country and in others.*



PHOTO: RICK BROWNE—PICTURE GROUP

"People weren't sure they wanted to trust their business to a teen-ager, so I had to use some extra tactics." Those included offering special half-price introductory rates, wearing the finest, dark-colored, three-piece suits and bringing a rose to the secretary.

Dean is still doing things with style. When he persuades a new client to try his service, he often sends a valet along with the driver—at no extra charge. "I lose money, but I always have a satisfied client," he says. "Once I get a client into one of my limousines, he always comes back."

Catching up with Dean is difficult. Operating under a variety of corporate umbrellas, he owns Town & Country Limousine Service of Washington, is opening a similar firm in Boston, consults for Town & Country Limousine Service of New York and is in the process of setting up Limo-Net, an interna-

tional network of individually owned and operated limousine services.

How does he feel about his \$2 million revenue level? "I'm far off my goals," he complains.

Barry Minko, of Reseda, Calif., is also restless. "The first thing people ask me is, 'Did your dad give you the money to start your business?'" Minko complains. The answer is an emphatic "No!"

Minko's mother, Carole, worked for many years as manager of a carpet cleaning business. As a child, drawn to the world of commerce, Minko spent considerable time at his mother's office, absorbing fine points of the trade. He came to believe that, by applying youthful vitality, he could build a more successful business than the one his mother ran.

At 15, Minko started his own carpet cleaning firm, which he called 7777.

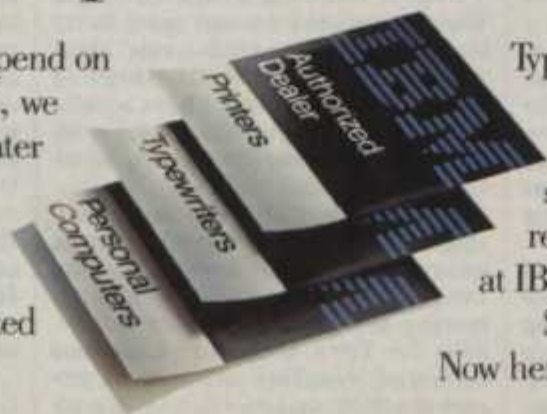
# The Business Whiz Kid

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## COVER STORY

## The Business Whiz Kids

The business world is electrifying for Joanne Marlowe, daughter of a noted 1940s bandleader. She has opened a boutique for fashions of her own

design. These photos of her at work were taken at a special pre-opening show.



PHOTO: RICHARD DEER

Best Company, in a Reseda garage. Today the 19-year-old businessman has offices in San Diego, Anaheim and Thousand Oaks, as well as Reseda.

Two of his 103 employees are his mother, who quit her previous job to help manage his business, and his father, Robert. The elder Minko, out of a job after a career in banking, joined his son's firm to sell to large commercial accounts such as restaurants and hotels.

"We'll do \$2 million this year," Barry Minko says calmly. "And we're a service business, so we don't have any cost of goods sold. Our \$2 million can compare to \$40 million for a manufacturing company."

**W**hen he can take time away from his business, Minko teaches a course on entrepreneurship at nearby Valley College. "I try to tell kids that it's not necessary to work for \$3.35 an hour," he says. "You don't have to do what everybody else does."

Minko recalls that when he was a high school junior he was earning more money than his principal.

"Some teachers seemed resentful of me," he recalls. "They thought I was trying to beat the system—to demonstrate that you didn't need an education to be successful. But I totally believe in school. I think it's the greatest thing."

It was just that Minko could not wait for school to proceed along its slow, ponderous course. "You've got to keep it in motion," he says, the "it" referring to the endless variety of human pur-

suits. "It never stops. You never get satisfied. You push."

Minko's push begins each day at 4:30 a.m., when he heads for two hours of weight lifting at a local gymnasium. By the time his employees arrive for work at 9, their boss has already put in two hours at his desk—and he will stay there until 8 p.m. at the earliest. "We'll franchise, we'll go public, we'll do all those things," Minko says. "ZZZZ Best is going to be the GM of the carpet cleaning industry. We're what the American company is all about."

Spend a few minutes talking with Minko and you may need to come up for air. The teen-age entrepreneur of today is the proverbial young person in a hurry.

"Sometimes I am bothered because I think I could be doing a lot better," says John Herman, a 10-year veteran of the business world. "Then I remember—I'm only 18 years old."

Herman, who lives in Cleveland, was only 8 when he began peddling samples of pens, coffee mugs, T-shirts and other items left over from his uncle Bob's specialty advertising business in Toledo.

His early customers were relatives, friends and neighbors, but by the time he was 12 he was corresponding with Cleveland business executives, introducing them to the line of specialty items and beginning to build a long-term clientele. Two years ago, at 16, Herman parted amicably with his uncle to form his own specialty advertising business.

Today he has eight employees and



markets a wide variety of premiums, awards, executive gifts and other specialty products to Cleveland businesses. "Our clients don't simply buy items," he says. "They buy a total service operation. We warehouse, ship and coordinate all types of specialty marketing programs."

The John Herman Company will show a gross of approximately \$500,000 this year. Its president and No. 1 salesman recently entered Case Western Reserve University, where he is taking, he says, "business courses and other crazy courses to keep me in touch with other parts of my life. I've learned that you have to remember that a lot more is going on in your life than just business."

**A** teen-age business often begins modestly but builds with speed. Like many a youngster, John Shorb started mowing lawns for hire when he was in the sixth grade. He concentrated on building a clientele in the affluent neighborhoods of the upper northwest portions of the nation's capital, and, he says, "Every year it kept getting bigger."

In truth, success was not as automatic as Shorb makes it sound. While other teen-agers pursued conventional interests, Shorb was teaching himself the art of landscaping, including such basic skills as trimming, weeding and seeding.

By the time he entered high school, he knew how to care for every type of outdoor plant that grows in Washington. He rose early to work before class-



*Robert Lewis Dean operates under a number of corporate umbrellas in the limousine service field. Whatever, he is doing well: "Once I get a client into*

*one of my limousines, he always comes back," he says. But Dean hopes to do still better.*

es, and he forsook sports after school so he could attend to the needs of his customers' lawns and gardens. When the rest of the family traveled to its vacation home in Maine, he stayed in Washington to work.

There is no question in Shorb's mind that the time and effort were worthwhile. Today, at 19, he is president of Northwest Lawn Service. His 120 regular customers contract for services ranging from simple lawn mowing to complete lawn care costing as much as \$400 per month. He has five full-time employees and four summer part-timers. His gross sales for 1985 will approach \$125,000. Within 10 years he plans to be operating the major horticultural center in the city.

**J**oanne Marlowe also started young. The eighth child of band-leader Johnny Marlowe of 1940s fame, she grew up in a Chicago environment that promoted creativity. "There would always be music in the house," she recalls.

This spirit of positive, free expression was stimulated when a marketing executive, for whom she babysat, suggested that she capitalize on her hobby of creating stuffed animals. Under the name of Furfur, Marlowe advertised clever animal patterns in craft magazines. Whenever she sold a pattern, she would also send the customer an order form for the bits and pieces of unique fabric necessary to make the toy, thereby generating repeat mail order business.

By the time she was 14, Marlowe was designing clothes for herself and her friends, inspired by the classic style of the '40s and '50s as demonstrated in the work of her longtime idol, Hollywood designer Edith Head. Marlowe's reputation spread steadily, helping her develop her business into a \$2,500 a month enterprise by last summer.

At that point Marlowe realized that the business had grown big enough to require a formal base. On August 30 she opened Joanne Marlowe Designs in the exclusive downtown shopping district of Evanston, Ill., and the 19-year-old designer projects that the boutique setting will enable her to at least double the size of her business almost immediately. She is projecting sales of \$60,000 to \$110,000 over the first 12 months.

Marlowe wowed the audience at a special pre-opening show with a totally new approach to wedding attire: a flower girl entered in traditional white, followed by a bridesmaid in pale pink; as



PHOTO: T. MICHAEL KEZA

each succeeding bridesmaid entered, the shade of pink grew more intense until the bride finally appeared, gowned in breathtaking fuchsia.

"White is so dull," moans Marlowe. "I feel that the entrance of the bride should build like a crescendo. She should steal the show."

High tech is a far more obvious target for the teen-age entrepreneur than high fashion.

The full impact of the technological revolution is just beginning to be realized, absorbed and acted upon. Young pacesetters are inventing new professions. The combination of endless curiosity, abundant energy and a lack of inhibiting preconceptions makes teenagers ideal candidates to explore the wondrous nooks and crannies of the world of high tech business.

Consider the Vid Kid.

Thirteen-year-old Rawson Stovall, of Abilene, Tex., writes a syndicated column that appears in five periodicals, including the *Odessa American*, the *El Paso Times* and *Young Person Magazine*, a nationwide newsletter for schoolchildren. Furthermore, he has parlayed his print journalism into a regular segment on the Public Broadcasting Service series "New Tech Times."

The Vid Kid is a widely recognized critic of video games. "There was nothing on the market to help people decide what to buy at \$30 a pop," he observes. So he wrote four sample columns and sold them to Dick Tarply, editor of the *Abilene Reporter News*. The Vid Kid was on his way.

As might be expected from someone

who spends his life in the distant galaxies portrayed in video games, Stovall is more interested in discussing the future than the past or the present. He plans to attend the University of California at Los Angeles to pursue a career in television production. He can elaborate at length on the research paper he wrote last year comparing the prime time programming content of 1974 with that of 1984.

"I watch a lot of television, but I don't do it mindlessly," he declares. By his analysis, the amount of network time devoted to general drama programming was down from 20 percent in 1974 to 9.8 percent in 1984.

**T**elevision execs take note: The Vid Kid predicts an increase in the number of hour-long family dramas, but with more humor than "The Waltons." He explains that people have a need for more family. He also theorizes about the increase in the number of young people in television: "Kids are becoming more popular because of their innocence and natural sense of humor."

Stovall—whose annual income from his various ventures exceeds \$10,000—looks, thinks and acts like a young executive. Perhaps the Vid Kid is the quintessential product of the high tech generation. "He was born this way," his mother says.

Some high tech products are made, not born, and if your interest lies in robots, Tim Knight, 19, of San Jose, Calif., is the teen-ager to see. He is proprietor of the Robot Center, al-



## COVER STORY

## The Business Whiz Kids

*John Herman has been an eager businessman since he was 8. He sells specialty advertising items like those you see here. Herman is going to*

*college while running a business that has eight employees and provides "a total service."*

though he prefers to call his merchandise "probots." If that is not perfectly clear, you will find a complete explanation in *Probots and People: The Age of the Personal Robot*, the most recent of Knight's dozen books, published by McGraw-Hill.

Knight delights in showing off his wares. The Robot Center offers everything from the 3-inch-high probot Constructicon for \$2.95 to the 2-foot-plus Omnibot 2000 for \$500. Vehicles ranging from dump trucks to fighter planes can be transformed to take on human-looking shapes. All the bits and pieces flip and fold to entirely change the appearance of the probot. There even are comic books that describe the adventures of these characters, fashioned after their cartoon shows.

Then there is Petster, a probotic kitten that responds to a call from its humanoid master, as well as a voice-activated teddy bear and a few probots with decidedly unpronounceable names such as Mospeada, Styrikevalkyrie and the redoubtable Blowsuperior. The highlight of the show is Hearoid, which can bring a cocktail upon command.

The human in charge of all this technology is the son of a Crown Zellerbach executive. He became interested in electronics at 13 and within a year founded his own software company. Soon Knight was writing articles and software reviews for 13 periodicals and newspapers, and that success prompted him to author his first book, *The World Connection*, at 16. Eleven other books



PHOTO: T. MICHAEL KEZA

followed, and an additional four are pending. Titles include *Graphics and Sounds on the Commodore 64*, *Graphics and Sounds on the IBM-PC*, and *Eureka! on the IBM-PC*. More than 200,000 copies of Knight's books are in print.

This young entrepreneur knowingly caters to the youthful fantasies of his customers at the Robot Center. "Most of our customers are kids or adults who have a child's imagination," he says. But \$150,000 in sales during the first nine months of business is no illusion.

What makes Knight run?

"I have an intense desire to be my own boss," he says. "Also, I have a person inside me that is just a little out of touch with reality. That has both helped me and hurt me. On the positive side, it has allowed me to see and do things that others won't attempt. On the down side, I've made some mistakes, but I won't repeat them. I plan more carefully now."

The role of the teen-ager in the computer revolution is further illustrated by 19-year-old Silicon Valley twins named Craig and Keith Mortensen.

You may recall that during the 1981

## A Young Persons' Network

*The Association of Collegiate Entrepreneurs is dedicated to creating contacts for young business people, says Verne C. Harnish.*

By definition, youthful entrepreneurs are excluded from those informal organizations known as old boys' networks. Therefore, the Association of Collegiate Entrepreneurs was born in 1983, with Verne C. Harnish, a professor at Kansas' Wichita State University, as its national director.

ACE established headquarters in an appropriate site, the renovated building in Wichita where, in 1958, Frank Carney, 19, and his brother Dan, 25, founded Pizza Hut.

The association now has chapters on most major college campuses. It publishes a monthly newsletter, has an



PHOTO: BILL HIGMAN

electronic network so members can communicate by computer and holds a variety of conferences. A national conference in Dallas last March attracted 611 young entrepreneurs representing 202 universities and colleges in 41 states and eight countries.

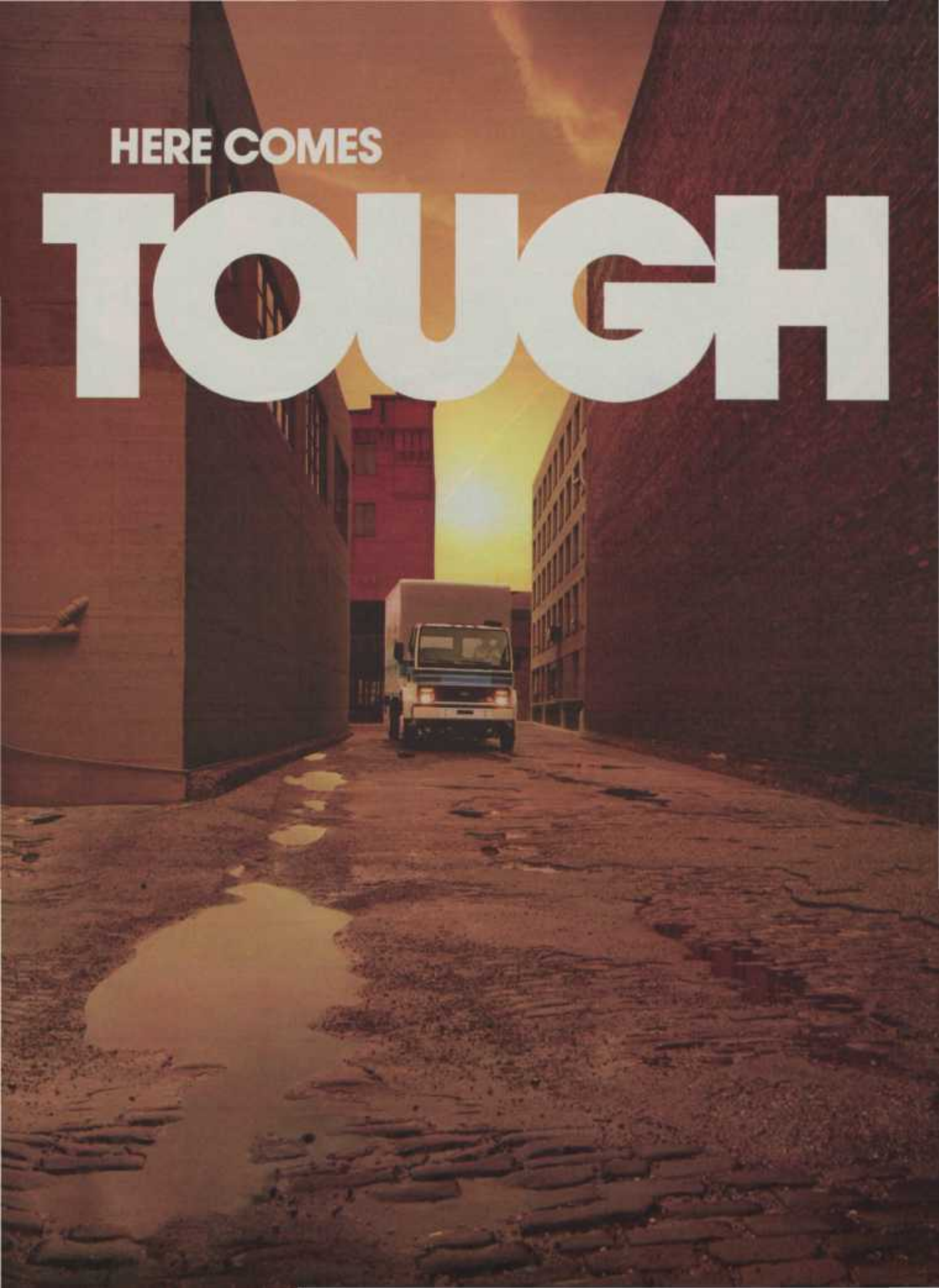
"You need contacts to be successful in business, and that is often the biggest problem for young entrepreneurs," Harnish says. He tries to put them in contact with bankers and others who believe in their capabilities.

"We call it the Young Persons' Network," he says. "Everybody needs someone to talk to."



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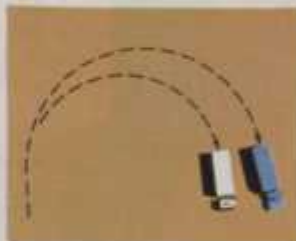
Many chassis components have been proven on Ford's F-Series trucks. Drive train designs share the tough Ford tradition. Parts and service through over 250 Ford Heavy Truck dealers backed by 20 Ford parts depots.



### Great new outlook for the driver!

With its deep windshield and low-cut side observation windows, Ford Cargo gives the driver great visibility—

up and down, front and side. Ride and handling are outstanding. Cargo's cab is quiet, all instruments visible through the two-spoke steering wheel, all controls finger-tip operated.

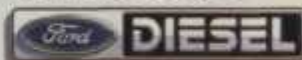


### Cargo turns 14 ft. shorter!

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\*Based on 1985 model year new truck registrations through July, 1985.

\*\*Turning diameter compared with F-Series conventional comparably equipped. (SAE standard J1349).

### TRUCK OPERATIONS



See Cargo at Dealers who display this sign.



Circle No. 97 on Reader Service Card.



## COVER STORY

## The Business Whiz Kids

*As a child, Barry Minko watched his mother run a carpet cleaning firm. Now Robert and Carole Minkus work in their son's 103-employee carpet cleaning company.*



PHOTO: JEFF HARRIS—BLACK STAR

Christmas season, Apple Computer advertised its Apple II-Plus personal computer with a colorful graphic routine that depicted Santa opening gifts for good little girls and boys. That computer art creation put the Mortensen twins on the Silicon Valley map and led to the founding of Mortensen Computer Graphics in 1983. Today the company creates projects for customers including Apple, Applied Software Technology, Chambered Nautilus Software and International Solutions.

"We want to create computer graphics for the common man," says Keith Mortensen, "like the graphics being done for the George Lucas films."

Lucas is the producer of the "Star Wars" films, and the twins' work does indeed seem to be heading them toward a wondrous future. Their electronic odyssey began in the sixth grade when they tinkered with spare machine parts lying around in the family garage. They built miniature robots and determined to follow up on that success by building their own computer.

The home-built computer never became a reality, but seeing the twins exhibit genuine fascination with computers, their father bought them an Apple II-Plus so they could experiment on their own. Their technological aptitude impressed Bobbi Goodson, their com-

puter science instructor at Collins Junior High School in Cupertino, Calif. She took them directly to Apple, the company founded by the original computer whiz kid, Steve Jobs.

Believing that the computer field offered unique opportunities for the creative teen-ager, Apple had established the Apple Education Foundation to promote the interests of young entrepreneurs. Carolyn Stauffer, the foundation's director, became the personal mentor of the Mortensen twins, showing them how to market their programming skills. The Apple entrée led the twins to numerous projects that might have been expected to go to adults.

"We'd get a contract from a software company and go to the owner's house on the weekend to get to know him as friends," Craig Mortensen says. "This helped us understand how he did his marketing and what kind of graphic he wanted."

**T**he twins' work has had varied purposes. For example, the Mortensens designed a mock travel commercial depicting coastal France, with an animated windsurfer skimming across the water. A French software company used it to show travel agencies the potential for computer graphics in advertising. For a Stanford graduate student, the Mortensens developed a picture of a pumping heart indicating the direction of blood flow.

Although they specialize in graphics, they also market their services as general programmers in any of six computer languages. As certified developers for Apple's Macintosh computer, they are developing a variety of high tech aids for schoolteachers.

The time the twins can devote to such activities is restricted, because they are full-time students, majoring in computer science at California State University in Chico. The tangible rewards are presently limited to roughly \$2,000 a year (a maximum of \$300 per project). But the intangible rewards for the twins' future are immeasurable.

What separates them from their peers? Says Goodson, their former teacher: "They see beyond what's happened to them and understand the larger picture. They have vision."

That is a statement that could be applied to all the teen-age entrepreneurs. They have seen the future—and it is theirs. ■

*To order reprints of this article, see page 89.*



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# A Class By Itself

Free enterprise and patriotism "started getting pretty popular some years ago," declares Tracy Gilbreth, a teacher at Hunt School in the rural community of Hunt, Tex.

As part of the national return to fundamental capitalistic interests, Gilbreth's students in 1973 established an enterprise that echoed Junior Achievement, the organization of student-run companies that make and sell products throughout the country under the guidance of volunteers from the adult business world.

There were important differences, though, between JA and what was done at the Hunt School.

A Junior Achievement company is composed of high school students, and it exists only for a school year. Gilbreth's youngsters were elementary school students, and their company is a continuing business venture.

Hunt School 5th & 6th Grade Class, Inc., today chalks up annual sales of \$15,000 to \$25,000 from a variety of ventures.

They range from bake sales to barbecues, from raffles to the manufacture of a bona fide product advertised in the Neiman-Marcus catalog.

Gilbreth says that through the corporation, his students, ages 10 to 12, are the youngest members of the U.S. Chamber of Commerce. "The reason we belong," he says, "is that if you're going to be in business, you have to be professional-minded."

The corporation, registered legally, is run by charter, and each year's class members determine whether they want to approve, by a two-thirds vote, any changes in the charter. Each class member then signs the charter.

Leadership is provided by sixth graders. To be a corporate officer, one must maintain straight As. Use of profanity is cause for impeachment.

Every member of Hunt School 5th & 6th Grade Class, Inc., has a job to do, and responsibilities are not taken lightly. Tasks may include raking leaves, organizing a bake sale or negotiating a bank loan.

"These kids know more bankers by their first names than I ever did," says Gilbreth. "They'll look anyone in the face and shake his hand."

*A Hunt, Tex., banker talks to members of the Hunt School 5th & 6th Grade Class, a company that has been operated by successive classes for a*

*dozen years. The company's varied ventures bring in as much as \$25,000 annually.*



PHOTO: TERRY HAGGARTY

A loan became necessary when the 1984-85 version of the corporation decided to buy a \$13,500 pickup truck and raffle it off. Corporate officers negotiated the loan, and rank and file members sold \$16,000 in raffle tickets.

The company's most notable product to date—the one that has been in the Neiman-Marcus catalog—is the Texas Hill Country Weather Stone, a novelty item that is no more than an old rock suspended on a barbed-wire stand. The Weather Stone comes with instructions that read in part:

"Place stone outside of any shelter in exposed area. Allow stone 30 minutes to become acclimated. By observing the stone, the following conclusions about the weather can be assumed: If the stone is wet—rain; if the stone is dry—not raining; if the stone coughs—air pollution; if the stone jumps up and down—earthquake...."

**W**eather Stones are sold in 37 states and 17 foreign countries. Complimentary stones are owned by Dallas Cowboys football coach Tom Landry, Walter Cronkite, Norman Vincent Peale and Ronald Reagan.

The corporation has its own post office box, its own telephone and its own charge accounts. It also controls the

distribution of profits. Over the years the students have purchased numerous items for the school, including a sound system for the auditorium and AM/FM radios, televisions and telephones for each classroom.

So proficient have students become at running a business that, during the 1984-85 school year, representatives of Hunt School 5th & 6th Grade Class, Inc., presented speeches promoting the free enterprise system to students at Texas Tech, Texas A&M, the University of Texas, and other colleges and universities.

Individual rewards are reaped during the second year of participation. Each year, the sixth grade benefits from an all-expenses-paid trip, funded by corporate profits.

Students make all the travel arrangements. Sixth grade classes have been to Los Angeles and to Cuernavaca, Mexico. One year the class flew to Washington to attend a meeting of the U.S. Chamber of Commerce and meet its president, Richard L. Leshner. The next year sixth graders visited Norfolk, Va., for eight days.

"They have found," says Gilbreth, "that hard work and being polite and dependable can take them to the Norfolk Hilton, where they can eat steaks for a week." ■



# Marketing

By Nancy L. Croft

**R**elaxing in the Red Rooster Restaurant in Reardon, Wash., Robert Sweetgall slipped off his shoes and socks. He saw no harm in it: The place was nearly empty, and he was at an out-of-the-way table. He soon noticed, however, that a waitress was staring at his feet. Another waitress came over to see what she was looking at. A few minutes later, the headwaitress told Sweetgall he would have to put his shoes back on.

It isn't always easy being a marketing tool. At the time, Sweetgall was on a year-long, 11,600-mile trek across the United States, including Alaska and Hawaii. Along the way, he lectured at school assemblies and community meetings about the dangers of sedentary lifestyles and the importance of exercise.

Sweetgall was—and is—participating in a marketing program for Massachusetts-based Rockport Company, manufacturer of lightweight footwear and walking shoes. Rockport and Gore-Tex Fabrics, a division of Maryland-based W.L. Gore & Associates, are corporate sponsors of Sweetgall's "Walk for the Health of It" campaign. They are trying to convince Americans to associate exercise with walking. They are also trying to get Americans to associate walking with Rockport shoes and Gore-Tex fitness wear.

The marketing program is the brainchild of Carol Cone, president of a Boston public relations marketing firm, Cone & Company. The message, says Cone, "is low-key. A lot of PR people think fluff. They say, 'Let's make the biggest ice cream sundae on earth.'"

Cone's approach to creating marketing programs for her clients is subtler. In the case of the Sweetgall walk, she says, "Rob didn't go out there and say, 'Rockport, Rockport, Rockport.'" He simply wore Rockport shoes and a Gore-Tex sweatshirt with small Rockport and Gore-Tex logos. Sweetgall has gotten considerable media attention with his 50-state walk, but Rockport's program is reinforced by other Cone touches.

Cone arranged for Rockport's walking shoe to be tested by the American Podiatric Medical Association for quality performance. The result: Rockport is the first footwear manufacturer to be

*Crossing the Brooklyn Bridge was the grand finale of a pro-fitness, cross-country walk by Robert Sweetgall (center). Public relations firm head*

*"How do you make walking sexy? You can't do it. We take the educational role whenever possible."*

*Carol Cone (second from left) persuaded two manufacturers to sponsor Sweetgall's walk.*



PHOTO: MICHAEL REZA

awarded the association's Seal of Acceptance—now used in the company's advertising. Cone also arranged for Sweetgall to fly to the University of Massachusetts Medical School's Center for Health, Fitness and Human Performance periodically for physiological testing throughout his walk. The test results will provide valuable data on the effects of fitness walking. "No one has ever tested someone who's walked for a year," Cone says. "The press will be fascinated."

That is not all. "I like to think big," says Cone. When Sweetgall started his walk in September, 1984, she persuaded a publisher to produce a book on him. *Fitness Walking*, written by Sweetgall and his physicians at the University of Massachusetts, was released in September by Putnam Publishing.

And you can't have a book without a movie, says Cone. Rockport is underwriting a 12-minute documentary about fitness walking based on highlights of Sweetgall's transcontinental journey. The film will be distributed to walking clubs (at least 2,000 in the country) and cable television stations.

In product marketing, says Cone, "you have to enliven the product, you have to make it sexy." But she finds she cannot take that approach with many of her clients' products. For instance, says Cone, "how do you make walking sexy? It's like saying, 'Let's do a program on making breathing sexy.'" She answers herself: "You can't do it. We take the educational role whenever possible."

Cone started her firm five years ago in her barn 30 miles outside Boston (she was boarding horses at the time) with a rented typewriter. Now she has 33 employees and a headquarters in the city. Approaching \$2 million in revenue for 1985, the firm is looking to buy into a larger building.

She was born into communications, Cone says—her mother invested in off-Broadway theaters and her stepfather was a modern artist. At 7 Cone started a neighborhood newspaper and gift-wrapping service. By 11 she was writing plays for her fifth-grade class and acting in them. Now, at 35, Cone is still a bundle of energy—"I think I'm more like 14." ■



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# Designs On Counterfeiters

By Bob Gatty

**D**empster Leech visits a lot of flea markets while he is working, searching out bargains that seem too good to be true.

A private investigator headquartered in New York, Leech is seeking counterfeit merchandise—goods bearing fake trademarks of brand name products; often shoddy, sometimes dangerous imitations that are foisted off on unsuspecting consumers.

Leech, 43, has operated his private investigation firm, Harper Associates, Inc., for the past five years, specializing in cases involving the sale of counterfeit merchandise. Before that he worked for another investigation agency handling insurance-related cases. Along came a case involving counterfeit designer jeans. Leech worked out an undercover technique (that he declines to discuss) and then launched his own company.

Now he has a new weapon: the Trademark Counterfeiting Act of 1984.

Signed by President Reagan last October, the law makes product counterfeiting a federal crime. It imposes stiff penalties (first-offense fines of up to \$250,000 and five years in jail for individuals and fines of up to \$1 million for corporations) for manufacturing or knowingly trafficking in counterfeit merchandise. (Individual repeat offenders can draw up to \$1 million in fines and up to 15 years in jail. The maximum fine for corporations is \$5 million.)

Already, some segments of industry, including credit card companies and makers of automobile replacement parts, are reporting declines in counterfeiting of their products.

Leech says he is seeing results of the law, too—he has more clients. "A lot of manufacturers have suddenly realized there is something they can do about the counterfeiting problem," he says. "They see a mild downturn in their business because a product defect is adversely affecting their image in the marketplace, and they want to react to it."

And retailers who once cavalierly sold the bogus goods are being more careful, Leech observes.

Says U.S. Customs Service spokesman Jim Mahan: "The new law has already proven to be a deterrent as far as resellers in this country are concerned.

*Victims of product counterfeiting hire private investigator Dempster Leech to track down bogus goods.*



PHOTO: WAYNE BORCE

But the manufacturers overseas could care less. They tend to set up shop for short periods and then move on. Besides, lots of countries have no laws against this type of thing."

Apparel. Auto and aircraft parts. Cosmetics. Jewelry. Toys. Video games. Computer components and software. Credit cards. The list of brand name products that are counterfeited and sold to consumers continues to

*Product counterfeiting must be met by "aggressive action," says Kathleen A. Rittner, Pennsylvania deputy attorney general.*



PHOTO: BLAIN SEITZ

grow—as does the impact on American business.

- Last winter the Food and Drug Administration, contacted by a pharmacist suspicious of an unusually low price, seized more than 1 million counterfeit birth control pills.

- Over the past two years, the Federal Bureau of Investigation and the U.S. Customs Service have confiscated 20,000 imitation Cabbage Patch dolls.

- A major manufacturer of specialized bolts and other fasteners that hold aircraft together reports major problems with the counterfeiting of such products, most of which are hazardous.

"The integrity of our marketplace has never been so challenged as it is today by the massive and insidious invasion of counterfeits," asserts Virginia H. Knauer, special adviser to the President for consumer affairs. The Customs Service estimates that more than \$18 billion a year in U.S. retail sales are lost to counterfeiting, up from about \$4 billion four years ago.

During 1984, Customs seized \$30 million worth of counterfeit goods, nearly double the amount in 1983.

Today, U.S. manufacturers victimized by trademark and product copycats are hoping that the new Trademark Counterfeit Act, as well as an anticounterfeiting provision in trade legislation approved last fall, will help end this threat to profits. But law enforcement officials are urging them to do much more.

"You can sit around and talk about the problem till you're blue in the face," asserts Kathleen A. Rittner, Pennsylvania deputy attorney general. "But unless you take aggressive action, the problem is going to grow and grow."

Rittner and the Pennsylvania State Police recently broke up a multimillion-dollar operation for retailing phony designer clothing.

Most counterfeit products sold in the United States are produced abroad, primarily in Taiwan, Korea, Malaysia, Singapore, India, Argentina, Brazil, Colombia and Mexico. Thus, Congress included in the Trade Act of 1984 another weapon.

That measure allows the President to condition the granting of most favored nation status, which provides for liberalized import quotas, on just how well



*Fake trademarks of brand name products have cut deeply into the profits of U.S. manufacturers. Now something is being done about it.*

such countries police counterfeit activities within their shores.

Since the law's enactment, observes Paula Stern, who chairs the U.S. International Trade Commission, Taiwan has passed an anticounterfeiting law that provides up to five years' imprisonment for violators. In addition, Taiwan's national anticounterfeiting committee has become a member of the International Counterfeiting Intelligence Bureau, a private London-based organization for information exchange founded this year.

Stern notes that the United States is hoping to convince its trading partners to include consideration of anticounterfeit measures in the General Agreements on Tariffs and Trade. However, a large group of developing countries has opposed this initiative, she says.

Meanwhile, she and other officials advise businesses to make sure their trademarks are registered with the Customs Service and kept up to date. Customs will not act against possible counterfeit merchandise unless the trademarks have been registered. However, if they have been listed with Customs, the agency not only will see to it that counterfeiters are prosecuted, it will seize the goods for disposal by the government.

In addition to the Trademark Counterfeiting Act, Congress last year put another weapon in the arsenal against counterfeiting, the Semiconductor Chip Protection Act. The law protects for 10 years the copyright-registered design of computer chips produced since 1983.

Stern also notes that Section 337 of the Tariff Act of 1930 gives the ITC the power to investigate patent, trademark or copyright infringement, or other intellectual property violations in the importation of goods into the United States. This, she says, gives companies still another avenue for relief.

She calls the new Trademark Counterfeiting Act "potentially the most effective vehicle for curtailing the sale of counterfeit products in the United States." But laws are only as good as their enforcement, and law enforcement officials say that counterfeit product violations often have low priority.

"It has to be a fairly locked case,"

*Ralph Destino, president of Cartier, Inc., stomps on 25,000 pairs of counterfeit Ferrari sunglasses, confiscated by U.S. Customs. Cartier distributes the real thing.*



PHOTO: NOEL BOENZI—THE NEW YORK TIMES

notes Julian Greenspun, deputy chief for litigation in the Justice Department's criminal division. Observes Pennsylvania's Rittner: "It just takes a lower priority. Most law enforcement people are more interested in going after rapists, muggers or murderers."

In fact, Rittner says that because of the time and expense that went into breaking up the counterfeit operation in southeastern Pennsylvania, it will now be tough to convince her office to tackle another retail case.

Thus, she advises business people facing competition from product counterfeiters to take advantage of civil procedures in the Trademark Counterfeiting Act. The procedures permit them to obtain court orders to stop the sale of counterfeit products and to obtain civil penalties that can be triple the amount of damages suffered, plus legal fees.

She also points out that the new trademark counterfeit law makes distribution of such products a federal crime, opening the possibility of involving the Federal Bureau of Investigation.

"Use the feds," she says. "Beat the FBI over the head. They have primary jurisdiction."

The FBI considers many forms of product counterfeiting dangerous and a threat to health and safety, taking it beyond the pure economic impact of selling phony designer jeans. Such threats are the FBI's first priority.

"Come to the law enforcement agencies with as much information as possible," advises Donald Richards, a supervisory special agent in the FBI's financial crimes unit in Washington.

While enforcement agencies have problems in assigning their resources, Commerce Secretary Malcolm Baldrige has made the fight against counterfeiting one of his department's top priorities.

Baldrige has established a task force of experts responsible for staying on top of the problem and finding new ways to keep counterfeit goods from entering the country.

Alexander H. Good, deputy assistant secretary of Commerce for international economic policy, puts it this way: "This is a moral issue. This is theft. Call it like it is." ■



# Returns From The Comet

By Carol Dilks

In 1910, the last time Halley's comet visited planet Earth, the whole world was waiting. While the event was making the front page of the *New York Times* 11 times in one month, a good many folks, fearful of the poisonous gases of the comet's tail, were stocking up on "anticomet pills" and running for cover.

This time around, we are also likely to be running—but for our checkbooks.

The comet, a hunk of dusty ice, has been rendezvousing with us every 76 years since before recorded time. It will appear from November of this year to early February of 1986, when it will disappear behind the sun. On February 20, it will reappear, this time with a glowing tail. By early May it will no longer be visible to the naked eye. All that will remain will be an enormous blip on America's sales chart.

A shining example of blip-making is General Comet Industries, a New York City firm that presents itself as "the official representative of Halley's Comet"—and who is to argue?

Owen Ryan, president of GCI, started on his star quest as a spoof. In 1980, as an adman, he was amazed by the amount of hype that was growing up around the Los Angeles Olympics. Since he had a client at that time who was selling a "Halley'scope," a telescope for viewing the comet, Ryan started joking with other clients about being the comet's representative. Eventually, he decided to go along with his joke.

"Originally I expected to put out a maximum of \$1,000 to develop some products," Ryan explains. Five years and a galaxy of products, licensing and marketing programs later, he has spent \$350,000 for development and expects costs to hit half a million. His roster is headed by his "official logo," which is licensed out to manufacturers of everything under the sun, from jogging suits to travel programs, and which Ryan calls "an intergalactic Good House-keeping seal of approval."

GCI sells a handful of items itself, including certificates for 100 shares of stock in the comet and jars of Comet Pills (yogurt-covered sunflower seeds).

Carol Dilks is a Philadelphia freelance writer.

*As Halley's comet comes back after 76 years, it is bringing a marketing bonanza in its wake.*

Owen Ryan heads General Comet Industries, a company that bills itself "the official representative of Halley's Comet."

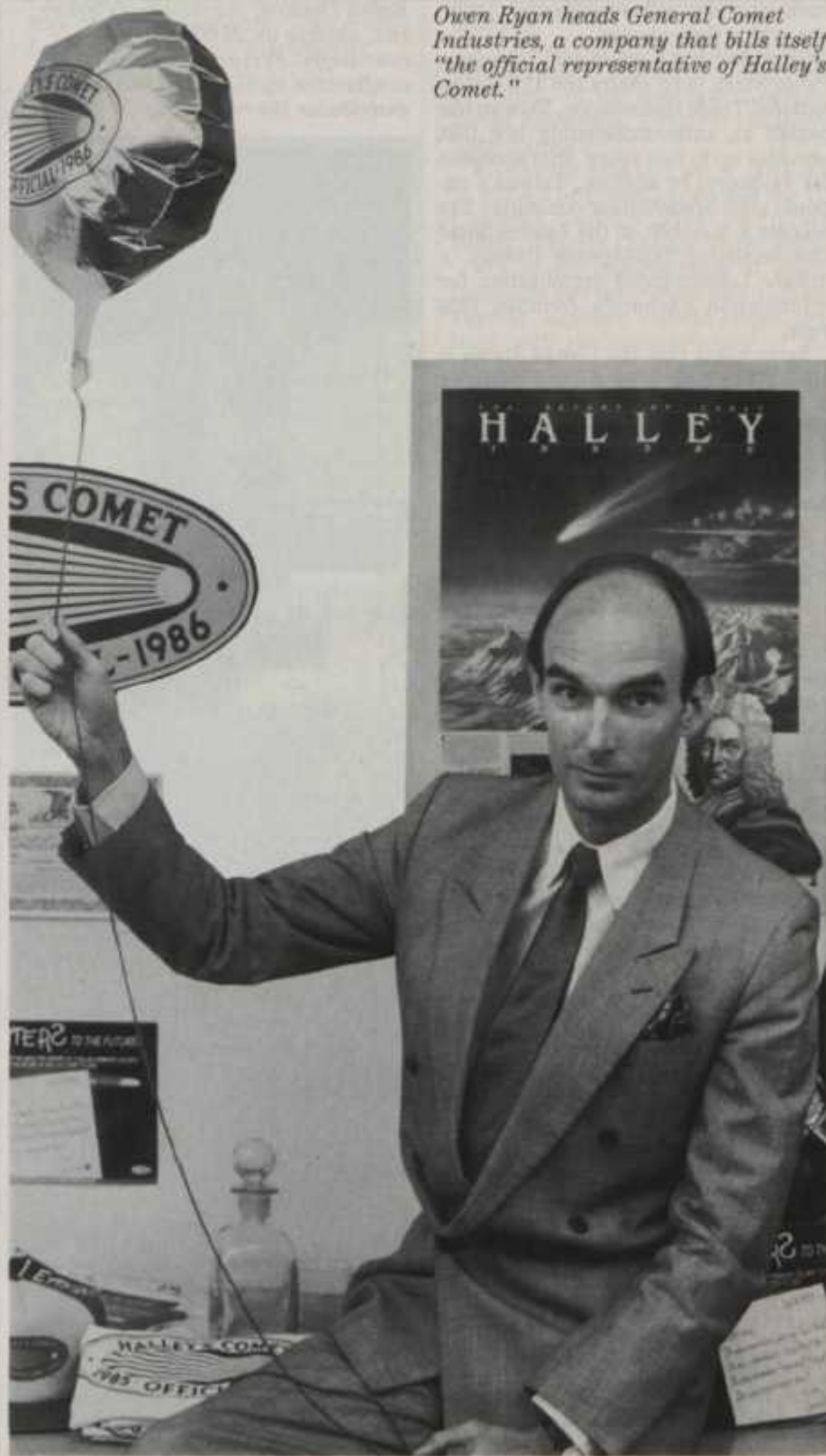
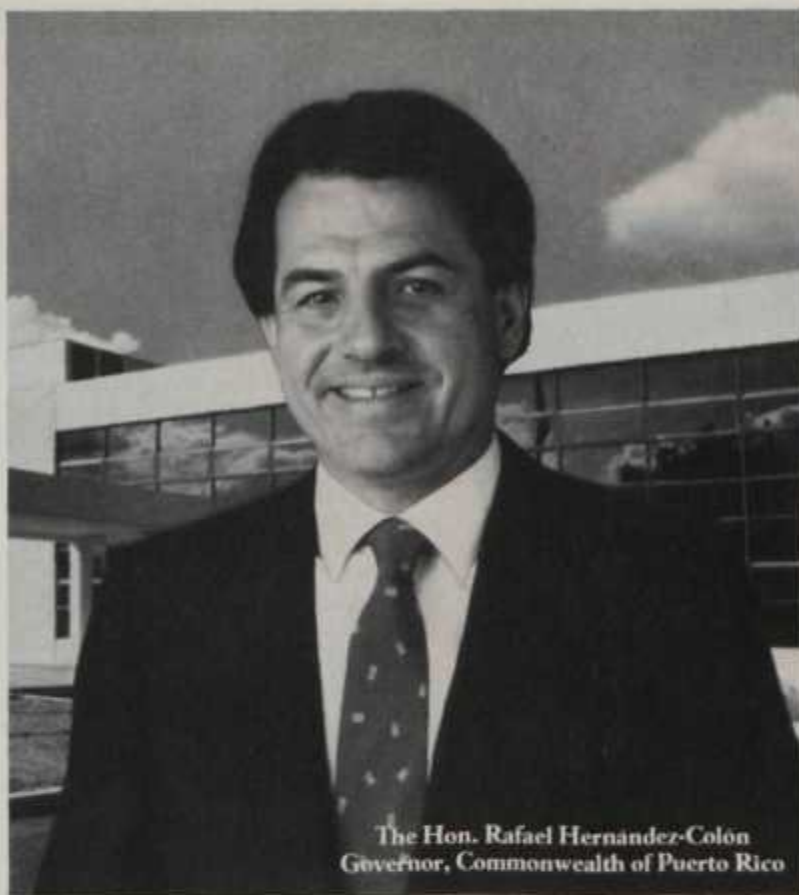


PHOTO: WAYNE BORCE





The Hon. Rafael Hernández-Colón  
Governor, Commonwealth of Puerto Rico

# "The climate is right."

The new administration of re-elected Governor Hernández-Colón is charging up American business with its entrepreneurial economics. A graduate of Johns Hopkins before his 20th birthday, President of the Commonwealth Senate and of his own Popular Democratic Party by the age of 32, Hernández-Colón has launched a no-nonsense, streamlined program that is further strengthening Puerto Rico's stable American democracy and one of the highest standards of living in Latin America.

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# Puerto Rico



## MANAGING YOUR BUSINESS

Returns From  
The Comet

*Comet Fever Products, a California company, sells T-shirts and stickers with designs like these.*



PHOTO: COMET FEVER PRODUCTS

reminiscent of the ones sold in 1910. The biggest part of its business, however, comes from running promotions for other companies. Ryan has created meal adventure kits for fast-food chains, mail-in offers, premium programs, a multinational event to be called "Halley's Day of Peace and Harmony," and a "Letters to the Future" program that he is selling to "any company with a large parent-child franchise."

**T**he experience of witnessing the comet "will produce many emotional millionaires," Ryan says. But Ryan could be a financial one. In a mini-industry that he sees as having as much as \$100 million in total revenues, he figures he will gross between \$8 million and \$10 million.

He has built his marketing firm into a solid operation, which he expects will be around long after Halley's Comet is gone again, but he does not minimize what the comet is doing for him. "I'll be 115 the next time it comes," he says. "So I have to act right now."

Burton Rubin, the Ryan client who developed the Halleyscope and founded Halley Optical Corporation in New York, has specialized in specialized markets. Back in the '70s, he noticed that cigarette rolling papers widely used for marijuana were too narrow for their new function. He developed E-Z Wider paper which, by 1980, had registered sales of \$10 million. He sold the company and, after reading an article about record telescope sales the last time Halley's Comet visited, formed his present company.

Rubin called in experts to design a "consumer-friendly" telescope—he wanted one as uncomplicated to use as possible—to sell for about \$200. The Halleyscope has now been selected by J.C. Penney, Eddie Bauer and other retailers that have a large mail order business, as well as by camera shops.

Another company profiting from the comet's visit is Halecom International, of Linwood, N.J. In eye-catching reference to the dread people used to have of this comet, Robert Subranni, the company's president, designed a coin with a monster terrorizing the earth on one side, along with a Latin inscription meaning "Save us from the terror of the comet." The flip side is a picture of Sir Edmund Halley, the English astronomer who correctly predicted the comet's 1758 visit.

The coin and its spin-offs (necklaces and key chains), retailing for \$1.50 to \$300, are being bought by planetariums

and museums around the country for resale at their gift shops. "It's going better than we ever expected," says Subranni. "We'll be selling up to 15 million items by the time it's over."

For doll, kite and sticker fanciers, Comet Fever Products of Cotati, Calif., is ready to serve. It is also ready to take a bite out of the \$500 million-a-year T-shirt market in this country with such items as glow-in-the-dark shirts and shirts picturing comets flying over specific cities' skylines.

Halley's visit has sparked the growth of a large crop of comet-oriented, short-term businesses, but it is also affecting industries with decades of experience. Optical equipment companies, for instance, knowing that their market is more than a flash in the pan, have planned well in advance for increased demand. For them, the big job will be determining—or guessing—how large the after-effect of comet fever will be, and how many people will become astronomy enthusiasts.

**C**elestron, located in Torrance, Calif., is the country's largest producer of quality optical equipment. Its president, Larry Cassidy, notes that the company has been growing at a 50 percent annual rate since 1983.

"The comet is piling good news on good news," he says. "It's coming at a time when there is increased general interest in space—all the movies like 'Star Trek' and 'Star Wars' reflect it."

"We expect there will be a significant drop from this year's sales, but the business afterwards will be at a higher plateau than ever before."

Edmund Scientific, of Barrington, N.J., is also seeing skyrocketing sales. It markets no special item, such as a Halley-watching device, because, as Vice President Leon Parkman says, "when someone spends hundreds of dollars for a telescope, he should use it for more than one comet." But the company reports a 300 percent rise in tele-

scope sales over last year, with its most expensive beginner's telescope (\$300) leading the pack.

Since the comet appears in the fall and returns in late February, companies have to plan for a second big sales period. So, Parkman notes, if the company cannot keep up with demand for the first rush, it will get a second chance.

While the second sales rush is taking place, thousands of people will be sailing off to distant shores to catch the falling star, which will be better seen in the southern hemisphere on its return visit.

Sun Line Cruises, a New York-based company, started designing Halley's cruises in 1983. In March, 1984, it cautiously offered two South American cruises, complete with guest lecturers and 2 a.m. comet-viewing sessions. Both cruises sold out by that August. The company has kept adding cruises, currently offering seven. With prices ranging from \$2,300 to \$8,205, Sun Line expects to sell out—a total of 2,700 passengers.

**N**o doubt, many of these travelers will take along suitable reading material, since there will be no shortage of books from which to choose.

Pocket Books, Avon, Basil Blackwell, New York Times Books, Walker, Dell, Perigee, Warner, Random House, Arco, Bantam, Fireside Books and the Library of Congress are all putting out books about Halley's Comet or comets in general. Most will have first printings in the range of 15,000 to 20,000 copies. A notable star on the book horizon will be Random House's entry, "Comet," by Carl Sagan and Ann Druyan. Sagan (who created the very popular "Cosmos" series shown on public television) is a big enough celebrity/authority, and his books are big enough sellers, that even at \$24.95 the company expects the first printing of "well over 100,000" to sell out quickly.

Comet fever can strike anywhere, and it probably will. American business is ready to take the heat. It is geared up for what, for most people, will be a once-in-a-lifetime event.

"Usually," says Halley Optical's Rubin, "when people say something is an astronomical event they're describing something like a rock concert. But this is *really* an astronomical event."

And if it is this big this time around, imagine what business will be like in 2062. ■





# LASER

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# Answers To Your Questions

## How To License

I enjoyed your story about licensing ["A License To Appeal," April]. How does a private individual present a new idea, product, design or prototype to a company to add to its line for a fee or royalty? So far, I'm not thrilled with the "idea submission agreement forms" some companies have.

*M.C.Z., North Bergen, N.J.*

A couple of sources may be helpful to you: One is *Make Millions in the Licensing Business* by Pat Upton (Monarch Press, \$7.95, available from Simon & Schuster, 1230 Avenue of the Americas, New York, N.Y. 10020), which discusses how you can license your product to another company for a fee. As a woman, you may find help from the American Woman's Economic Development Corporation, 60 E. 42nd Street, New York, N.Y. 10165; (212) 692-9100. They have a "hot line" for questions like yours, for a nominal fee.

## SBA Lending Ability

Is it true that the Small Business Administration's direct lending authority is being eliminated?

*T.D., Milwaukee*

The SBA will still be financing small businesses under the proposed SBA authorizations bills in Congress. The 7a Loan Guarantee Program would continue to allow banks to provide long-range financing otherwise unavailable to small firms. These loans can be up to \$500,000, with terms of 7-10 years, usually.

The Small Business Investment Company and Minority Enterprise Small Business Investment Company programs would continue to fill the critical void in small business equity financing by providing venture capital through SBA-licensed private lending companies. The 503 Certified Development Company Loan Program would still make financing available to healthy small firms for planned expansion and job creation through a partnership among federal, state and local governments and the private sector.

## Credit On Vehicles

The June issue's Washington Letter, reporting on changes in auto recordkeep-

ing rules, stated, "One change reduces from \$1,000 to \$675 maximum investment tax credit for business vehicles." Was the law actually changed?

*D.H.P., Minneapolis*

Yes, Congress passed and the President signed the new law. The change applies to vehicles purchased or leased and put into service after April 2 of this year.

## State Financing

How can a small business find financing at the state and local level?

*G.H., Knoxville, Tenn.*

States are expanding their financial assistance to small businesses. Many have small business offices, small business procurement programs, small business loan guarantee venture capital programs, business development corporations or similar private loan programs and industrial revenue bond programs.

The National Association of State Development Agencies, a trade group of state economic development officials, should be able to suggest appropriate state offices to contact. The address: 444 N. Capitol Street, Washington, D.C. 20001.

All of the nation's 50 largest cities now have agencies involved in economic development. Such an agency can be located most easily by calling the mayor's office and asking for the agency involved in economic or community development.

## Costs Of Protectionism

Trade protectionism does raise consumer prices a little, but it also saves American jobs. Why is that such a bad thing?

*V.B., Chamblee, Ga.*

When the total impact of protectionism is studied, often it reveals a net job loss. Wharton Econometrics Forecasting Associates, a Philadelphia consulting firm, recently analyzed the impact of just one of the more than 300 protectionist bills now in Congress. Wharton found the proposed law restricting the import of certain raw materials would save about 10,000 jobs from 1986 to 1994.

But the ripple effect of high prices

and retaliation from our trading partners would cost the American economy 385,000 jobs and would reduce personal disposable income \$59 billion, cause GNP losses of \$114 billion and raise the federal debt by \$33 billion.

## Phones And Computers

I hear a lot about the convergence of computers and communications technologies. What does that mean, in practical terms?

*A.T., Findlay, Ohio*

AT&T is a communications powerhouse but is getting into computer manufacturing. IBM sets the pace in data processing but is positioning itself to be a communications giant; IBM's recent acquisition of a stake in MCI underscores that strategy.

Both of these giant companies know that computer and communications technologies are converging toward digital telecommunications networks, which will pump telephone calls, high and low speed data and video images through the same pipeline—an international services digital network (ISDN). Telephone companies all over the world are beginning to replace electromechanical analog switches with digital switches, solid state devices that use computers to route information in digital form—on-and-off pulses of electricity or light. The telephone industry is setting the stage for the time when your telephone will also be a computer to enable you to access ISDN services.

Merging digital and communications technologies makes good economic sense; it's more efficient to supply all the various data and voice services through one standard pipeline than to install an individual circuit for each separate application, as is now the case.

## How to Ask

Have a business-related question you need answered?

Write to: Direct Line, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.





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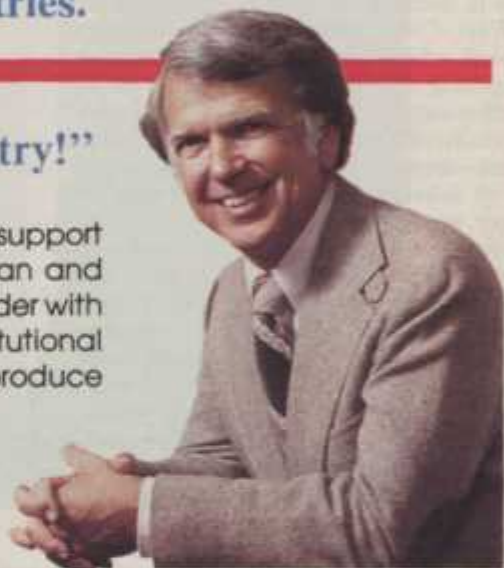
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Between 1960 and 1980, Oklahoma led all 50 states in percentage increase of manufacturing jobs. Come see us and we'll show you why, and also why Oklahoma may be where you and your industry will fit in best, for both profit and quality living pleasures.



Sincerely,

George Nigh  
Governor of Oklahoma



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# Getting Down To Funny Business

**S**noopy is working for the Metropolitan Life Insurance Company. Garfield the cat is promoting a resort community in Florida.

The Little Tramp of silent movie fame is already a veteran salesman of IBM computers.

A sharp-tongued, standup comedian is in demand for business meetings of West Coast firms. When a Chicago bank offered calculators to customers opening new accounts, the owner of an office-supply firm that sells calculators retaliated by offering the bank's product—money—to his new customers.

A delivery service will send a messenger wearing a firefighter's uniform to present a cake ablaze with candles to mark a birthday the honor guest would probably prefer to ignore. Gary Larson's offbeat and frequently macabre humor is the basis of a booming business geared to his "Far Side" cartoons, which have moved from the comic pages of newspapers to calendars, posters, coffee mugs and clothing, among other destinations.

Those activities represent a small sampling of the way humor is being used in business, to a far greater extent than ever before, as a tool in marketing and management. This trend, the experts say, is the result of changing perspectives of business people on the most effective way to get a message across, whether to consumers or to employees.

Michael Burger, who works the management side of the humor-in-business trend, says executives with messages they want to sink in often "don't realize how effective humor can be. If you get people in a relaxed mood, they're much more receptive."

His forte is shaking up company meetings with a routine that combines barbed humor with points the boss wants to make.

A typical Burger presentation might begin with his introduction by the chief executive, who explains that the keynote speech for the meeting will be made by a highly qualified expert, who is being brought in to overhaul the company.

The "expert" then proceeds to keelhaul individual managers with a heavy measure of sarcasm, but winds up with an obvious comedy routine. When it is

*Posing as an "expert" at company meetings, Michael Burger uses comedy to help bosses get a serious message across.*



over, Burger and the chief executive have wrapped the company head's genuine concerns in funny barbs, getting the message across without the CEO having to deliver a critical lecture that could cast a pall over the meeting.

Burger says of his clients: "They want to entertain, but they also want to get a few points across."

He is just one of the growing band of performers and experts who are helping businesses use humor effectively in various communications programs.

Robert Orben is probably the dean of the experts. He has written more than 40 books on the use of humor in business communication. Orben publishes a weekly newsletter to help executives brighten their speeches, and conducts seminars for individual companies. His career evolved from his earlier experiences as a writer for Red Skelton and later service as a speech writer for President Gerald Ford.

Orben says the quality of business humor has grown more sophisticated since the days when speeches often began with Pat-and-Mike jokes. "Successful speakers now use topical humor," he says. That approach, he explains, lets them demonstrate they are on top of current events and can put them in perspective for the audience being addressed. References to federal spending and regulations and politicians' foibles generally fall into this category.

"Humor is a bonding device," Orben says. "If you're a leader, you're viewed from a distance by the average person. When you are giving a speech, you are on stage. You don't want this emotional separation from people. Telling them a joke says, 'I understand your problems, and I am with you. It's you and me against them.' That's the focus of what I have tried to do in the business community for years—show people that, if you can laugh together, you can work together."

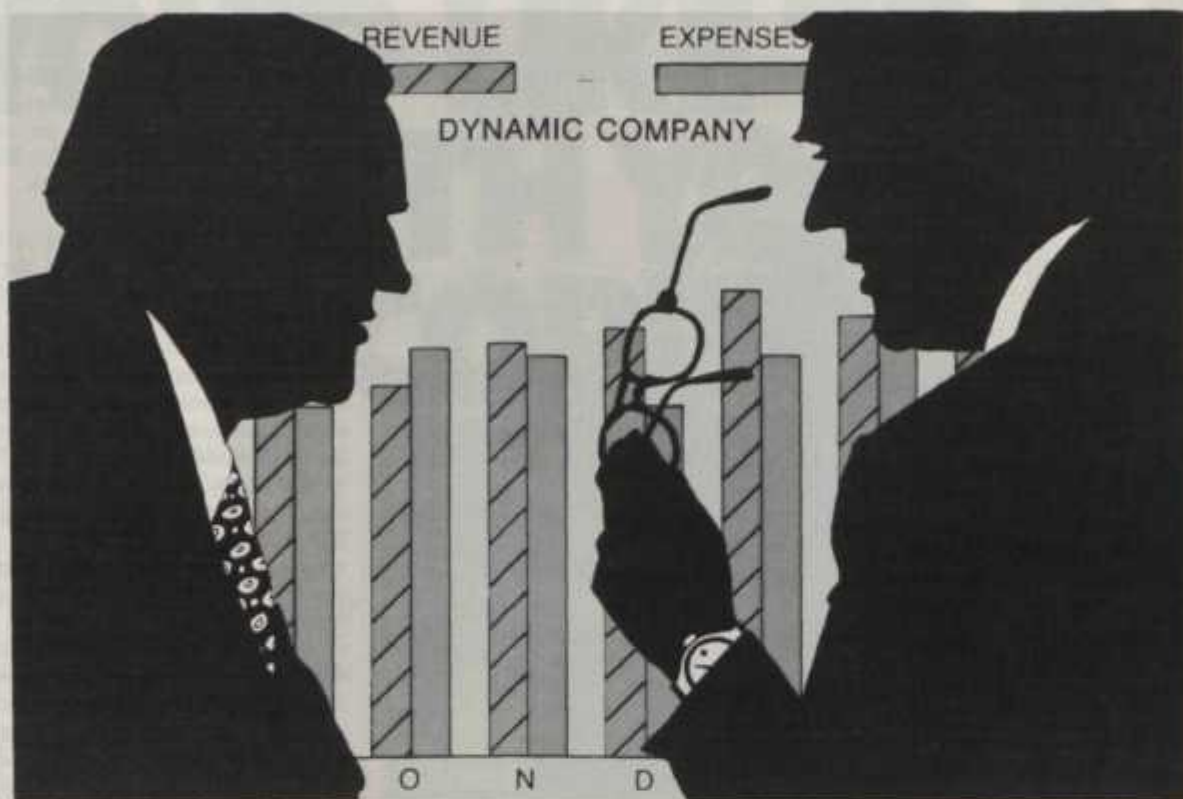
Malcolm Kushner is another of the growing band of humor consultants, and he tells his clients, "Humor is a serious communications tool."

A former lawyer who holds a master's degree in communications,

Kushner conducts seminars in which he shows business people how to humanize personnel relations with laughter.



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## MANAGING YOUR BUSINESS

Getting Down To  
Funny Business

*Specialists in using humor to sell or carry a message have a message themselves: Humor is a serious communications tool.*

"Humor is a bonding device," says Robert Orben, a specialist in the lighter side's place in business. "If

you can laugh together, you can work together."



PHOTO: PAT FIELD

Humor, he says, "can gain attention, create rapport and make ideas more memorable. If it's used properly, it can also relieve tension, defuse hostility and motivate an audience."

Business people trying to achieve those goals in a speech or other communications effort should remember some basic guidelines, Kushner says. Among them:

- Keep the humor relevant to the main message—otherwise it is a distraction—and adapt the humor to the audience. Your quips and anecdotes should reflect the interests, activities and even the jargon of your particular audience.
- Be brief and conversational. Audience expectations arise in direct proportion to the length of a joke. And humor taken from written sources should be adapted for the ear.
- Be self-effacing. This shows you have enough self-confidence to poke fun at yourself. It also creates better rapport. Distinguish between taking your message seriously and taking yourself seriously.

In addition to smaller operations like

those of Orben, Burger and Kushner, large firms are helping business people pursue the same goals.

One of the most elaborate services to infuse humor into business is offered by Mallory Factor, Inc., of New York. The firm, which bears the name of its president, puts on special events at business gatherings, particularly sales meetings, with as many as 10,000 attending.

Factor and his staff determine what message company leaders want to get across, then design a program they consider most effective. It might involve professional comedians like Henny Youngman or Rodney Dangerfield, a large cast of performers or even a puppet show. "We want to lighten up a meeting at various points, so people don't fall asleep mentally," Factor says.

Probably the most highly visible use of humor for business purposes is in advertising, where the technique has been used for a long time but is now the subject of new and even somewhat unusual approaches. For example, the Snoopy character created by Charles Shultz as part of the "Peanuts" cast

has long been familiar in ads for the children's and youth markets. But the famous beagle's debut as the focal point of a new campaign for Metropolitan Life was a breakthrough.

John Hatheway, executive vice president and group director of Young & Rubicam, which created the campaign, says it evolved from a year-long project in search of "something that would last for quite a while and would involve consumers and even business people at an emotional level." He adds, however, that "we really don't view this as humor in advertising. The success of the campaign lies in the fact that people like the Peanuts characters; we give them a very simple message, and they get very emotionally involved. I think we tend to look at Peanuts as being flexible, attractive, down-to-earth, unique, durable and involving, not as humor per se."

And, Hatheway says, "One of the things that these characters allow you to do is personalize a very large organization. That's unique in the insurance field."

IBM's personal computer division and its ad agency, Lord, Geller, Federico, Einstein, Inc., faced a similar challenge in 1981 when they were developing a campaign designed to show that the giant company's PC would not in-

*Advertisers like Dunkin' Donuts are turning to ad agencies like Ally & Gargano, which specializes in this type of humorous commercial.*



PHOTO: ALLY &amp; GARGANO



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## MANAGING YOUR BUSINESS

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timidate the most inexperienced user. They found the focal point of their campaign in the little character with baggy trousers, mustache, derby, cane and duck-waddle walk that Charlie Chaplin portrayed in classic films.

Says Robert Wells, senior vice president and director of client services at Lord, Geller: "We wanted to show that the product could be used by anyone. The Little Tramp is supposed to represent Everyman, to show that anyone can take a personal computer and use it—if he can do it, you can do it."

Like Metropolitan Life, ITT Community Development Corporation turned to the comic pages to find a high-impact character—Garfield the cat—to promote its massive Palm Coast resort in Florida.

**A**n early challenge to the Palm Coast builders was to develop billboard messages persuasive enough to motivate motorists to leave nearby I-95 and visit the community.

Gerald B. Sorkin, vice president and director of marketing, recalls: "We came up with the idea of having a cartoon character, and the more we investigated cartoon characters, the more we fell in love with the cat. He's not really controversial, he's just pure fun. He wants to live the good life, and we would be selling the good life."

While ITT chose a high-living cat, Stroh Brewery Company decided to use a beer-lapping dog when the company broke into national television advertising last year. Why a dog? "If you think about it," says Paul T. Norwich, an account supervisor for Marshchalk Company, Stroh's advertising agency, "a dog is a symbol of man's best friend. Turned into a beer drinker, what better friend?"

Stroh has been using humor in its regional advertising since the late 1960s because, Norwich says, "we found that the beer-drinking public likes to laugh." But humor also catches consumers' attention. Since Alex went national, Stroh has seen a 33 to 50 percent increase in brand awareness, according to Norwich.

Many smaller businesses find humor an effective selling tool, also.

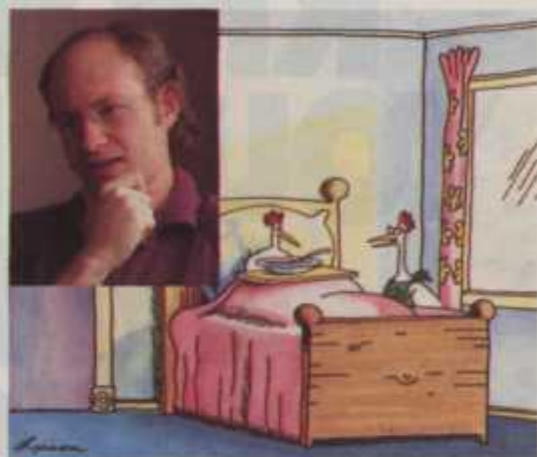
It was Aaron Hull, owner of 10 Office Furniture Warehouse stores in Chicago, who countered a bank's offer of free calculators by offering free money. He says that, since "the office furniture business is so dull," he needs such tactics to gain attention.

*Humor is highly profitable for card companies like California Dreamers (one of its birthday cards is at left) and cartoonists like Gary Larson,*

*whose "Far Side" drawings adorn calendars, posters and clothing.*



PHOTO: CALIFORNIA DREAMERS



CARTOON: GARY LARSON

Another promotion involved his version of a "sidewalk sale"—he broke up the sidewalk outside one of his stores and gave autographed pieces to customers.

Since he began such promotions, Hull says, sales have grown 20-25 percent a year.

The trend toward increased use of humor in business has also spawned the send-a-performer service, a direct de-

*His office furniture business is dull, Aaron Hull says, so he spices it with ploys like a bike giveaway for customers and salespeople: "We never tire" of bargains."*



PHOTO: RICHARD DEER

scendant of the singing telegram. Messengers dressed as clowns, gorillas, exotic dancers or bearing a strong resemblance to a celebrity are now seen entering office buildings throughout the country, en route to delivering a surprise message or performance to an individual or group of individuals.

The Eastern Union company, one of the biggest successes in this activity, has spread its operations to dozens of cities and has produced numerous imitators. Its services go beyond office parties. Its costumed agents are hired to liven many types of business meetings by participating in awards or presentations.

In the advertising community, a strong endorsement of humor as a marketing tool comes from Amil Gargano, president of Ally & Gargano, which has used humor effectively in ads it has created for Federal Express, Dunkin' Donuts, MCI and Polaroid.

But Gargano also agrees that humor should not be an end itself. However funny, he explains, the print ad or broadcast commercial must convey a strong, specific product message: "We have learned that humorous advertisements must grow out of the product or service. If you can create with humor an atmosphere where people feel good about your company and its product, then it will go a long way toward shaping attitudes."

DeWitt Helm, president of the Association of National Advertisers, agrees that the value of humor lies in its ability to provide information as well as entertainment. And he sums up the basic reason why more and more business people are finding humor effective:

"Humor reaches out and grabs." ■

*To order reprints of this article, see page 89.*



# Trends In Economic Development

By Manny Ellenis and Joseph Innace

Business incubators—facilities that help fledgling enterprises reach a commercially viable level—lead the list of economic development trends contributing to success on the American business scene of today.

Incubators are set up by states, municipalities and others to provide instant infrastructure. They give a number of small startup companies joint services—usually under one roof—that these companies would normally have to pay for separately.

The federal government currently counts about 100 incubators nationwide, with more on the way. This month, Winston-Salem, N.C., officially opened a 125,000 square foot incubator, the first entirely private one in that state. It is being sponsored by the Greater Winston-Salem Chamber of Commerce.

Mobile, Ala., is getting ready to unveil its own incubator.

"Incubators are setting off an entrepreneurial explosion across the country, serving as midwives to the birth of companies," says Dennis J. Donovan, business location vice president for Moran Stahl & Boyer, a New York-based site selection firm.

Donovan says that startup companies are giving a new lease on life to many communities that have experienced a retrenchment in their traditional smokestack industries.

But for some areas, basic industry is still strong. "Unlike other heavy industry cities, many of Mobile's chemical and paper plants are expanding," says Wally Lee, Mobile Area Chamber of Commerce executive vice president. "Still, given the tremendous rate of new company startups in the United States, the chamber, along with the city and county, plans to investigate the possibility of an incubator as part of Mobile's new economic diversification effort—for insurance."

He adds that Mobile is hoping to repeat the success of QMS, a laser-printer startup that launched operations in the

*Manny Ellenis is executive vice president of Development Counsellors International, New York, a firm specializing in economic development marketing. Joseph Innace is a New York-based business writer.*

*Attracting companies to far-removed locales is one name of the game in economic development. Another is getting companies to stay put. These*

*manufacturing scenes in Puerto Rico are evidence of the former. The men work for Intel Corporation, the woman, for Qume Company.*



PHOTOS: MARVIN SCHWARTZ

city eight years ago with just a \$10,000 loan and now does \$40 million in annual sales.

Dick Knowlton, manager, industrial development department, New York State Electric & Gas, says the next generation of incubators will have more foreign tenants: "It makes good economic sense. This will allow an offshore company to determine whether its product will be viable in the U.S. market."

Industrial incubators are explored in greater detail on page 48E.

This special report also takes a look at the following economic development trends:

- One-stop government shopping and the rise of the bid resource center (page 48H). More and more businesses are working with local government organizations designed to cut through the bureaucratic maze of securing govern-

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## Trends In Economic Development

ment contracts. Bid resource centers are tailored to the small business person who doesn't know how or where to begin.

- The growing emphasis on keeping businesses in their hometowns (page 48N). The glitter and glamour often go to attracting new businesses, but there are strong indications that this is changing.

- Foreign investment (page 48Q). Companies are traveling both ways—both from abroad into the United States and from the United States to other countries. The U.S. government is supporting an initiative to encourage development in the Caribbean Basin.

- Job training (page 48K). A look at the success of the Job Training Partnership Act, which puts together teams of employers and representatives of local government and labor to administer \$1 billion in federal funds. The immediate beneficiaries: companies that are relocating.

A new corporate culture is starting to take root among pros in the economic development movement.

The city of Houston provides an example.

Until this year Houston did not have a formal economic development organization. There had never really been any need for one. The city had done well as the nation's—if not the world's—energy capital.

Last year Houston was a national leader in new business starts, with more than 13,000.

On the other hand, it suffered its share of shutdowns from the tailspin in the oil and gas industries.

As a result of the shutdowns, the city launched an aggressive, businesslike economic development initiative. This new direction is spearheaded by the Houston Economic Development Council, which began operations in February and now has a staff of 29.

HEDC President Donald D. Moyer's conversation is spiced with words and phrases familiar in corporate planning: "accountability," "results-oriented," "diversification" and "short-, medium- and long-range strategies."

The HEDC has been organized into three units. One is responsible for domestic development; another is responsible for international investment. The third's field: outer space commercialization.

According to Moyer, the key is that an economic development effort must exhibit the same qualities as a well-managed company.

## Warm Startups In Incubators

Many an entrepreneur who started a venture in the days before business incubators came along must wonder where they were when he needed them.

An incubator can minimize risk and improve the chances of success for fledgling firms. By putting a number of startup companies—generally, companies that make products rather than provide services—under one roof, it can offer low rents, shared equipment and on-premises expertise and guidance. Today there are more than 100 business incubators across the country—evidence of a solid growth rate for this almost decade-old economic development concept.

Pennsylvania alone boasts 20 self-supporting incubators. At last count, these housed 83 startup companies providing almost 600 jobs. The state also

has 17 incubator feasibility studies under way.

Some states are now providing specially tailored programs. One of the more unusual is an industrial incubator with a dry kiln for curing lumber in Luce County, Mich. The county will lease the kiln to a private operator.

"Many members of the Michigan Association of Timbermen in northern Michigan need custom dry-kiln service," says Peter Grieves, association director and chairman of the Luce County Economic Development Corporation. "The new dry kiln will help attract secondary wood-product manufacturers, for example of particle board and furniture, to the area and create more jobs for our forest industry workers."

Customized service and special attention can go a long way with incubator tenants.

"The notion of a multitenant facility has been around for some time," says Bob Maximowicz, deputy director of the Broome County, N.Y., Industrial



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## SPECIAL REPORT

## Trends In Economic Development

*Bob Maximowicz runs the industrial incubator in Broome County, N.Y. Started with government grants, the facility is now self-supporting.*

*One of the Broome County incubator's tenants is Chem-Tech, whose owner, Lee Turner, got help with her company's marketing problems.*



PHOTO: T. MICHAEL KEEZA

Development Agency. "But the entire philosophy of supporting tenants with advice and consultation on a sustained basis, in effect nurturing the businesses along, was the big breakthrough."

Broome County's industrial incubator started in 1979—one of the first in the country. Today it serves as a model for others.

"I show our setup to some interested party an average of once every week," says Maximowicz. "This year alone, people from Maine, Pennsylvania, the West Coast, Canada and even the French Ministry of Industry have inquired about our operation."

The Broome County incubator has come a long way in just six years. Endicott Johnson Corporation had abandoned a 28,000 square foot facility and later decided to donate the building—in sore need of renovation—to the industrial development agency for a pilot incubator program. The IDA upgraded the building with grants of \$500,000 from the Commerce Department's Economic Development Agency and \$100,000 from the Appalachian Regional Commission.

Maximowicz says the incubator is now self-sufficient. "A lot of the Economic Development Agency sources have dried up," he says, "but we're profitable on our own. The rents pay for all our operating expenses, and there's a fair cash excess for repairs and renovation."

Seven companies rent space in the building. The smallest requires just 325 square feet and the largest, 9,000. The average is about 2,250 square feet. "We

use every nook and cranny of the 28,000 square feet we have," says Maximowicz.

The IDA charges \$2.82 per square foot per year. That includes heat, a cleaning service, garbage pickup and all building maintenance and repairs. And 15 cents of that charge goes to the local municipality in lieu of taxes.

Companies using Broome County's incubator are pleased not only with that but also with other—less quantifiable—things that "Bob Max" and the IDA do for them.

"Bob Max helped us out immeasurably with understanding cash-flow finances," says Rick Donahue, owner of Performance Tool & Aerospace, Inc. "He still comes in once a month to go over our books. Mainly because of his commitment and recommendations, we've been able to triple our sales to about \$12,000 per month and to double our staff."

"I try to help them with cash management, because many young firms are lacking in this area," says Maximowicz. He was concerned about Performance Tool, which was starting to fall behind in its rent. "I don't mind if a firm is late, but I am interested in the reason behind the tardiness. I asked Donahue about it and found there was a problem in getting their receivables back in a timely, consistent manner."

Before Maximowicz stepped in, Donahue admits, receivables were coming in at a 120-day rate. Performance Tool was selling well and getting a lot of repeat orders, but Donahue was reluctant to pressure clients for payment,



fearing he would lose their business.

"Getting orders from satisfied customers is terrific, but you're entitled to be paid promptly," says Maximowicz. "I just showed them some techniques to solve that cash flow dilemma. Four months was simply too long to wait for payment. You should have a 30-day net from initial order to shipment. We got Performance Tool's down to 70 days, and it now averages 45 days, delivery to payment."

While Performance Tool is on a more profitable course, it is still rough sailing for another tenant, Chem-Tech, a manufacturer of industrial and consumer soaps.

"This year will make or break us," says co-owner Lee Turner. She acknowledges that the low rent has helped tremendously, but the company has had trouble penetrating the market.

The IDA worked with the Small Business Development Center at the nearby State University of New York at Binghamton to solve the company's marketing problems.

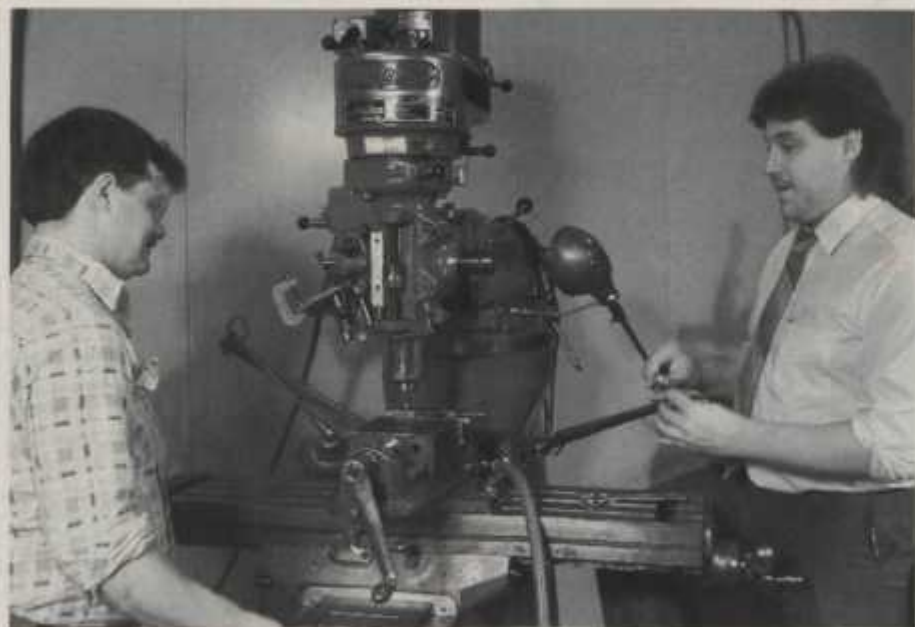
"Chem-Tech has a good line of cleaning solutions and compounds," says Maximowicz. "They developed their own formulas, and the resulting products have a considerably broader potential than the company originally envisioned."

With the assistance of officials from SUNY's small business center, Chem-Tech started a program aimed at widening its customer base. "The big thing," says Maximowicz, "was instilling confidence in the company about its prod-



*Rick Donahue (right, with a machine tool operator), owner of Performance Tool & Aerospace, Inc., says the Broome County incubator helped him*

*"immeasurably with understanding cash-flow finances." That has enabled the firm to triple sales.*



ucts. There's more excitement about their potential, now."

And while Turner maintains that the company's success is still up in the air, she can't say enough about the efforts of SUNY and the IDA. "The help we've received has always been superb," she says. "And it's beginning to pay off in the form of expanding markets."

In effect, the SUNY liaison with the Broome County incubator is an offshoot of the broader evolution taking place at university-affiliated incubators.

Most incubators have been set up either by localities working on their own or with the help of nearby colleges and universities, though some have been set up by educational institutions on their own, by chambers or commerce or by state agencies.

Some, however, are private and profit-making. Control Data Corporation has been setting up incubators around the country that it calls business and technology centers. The object is to encourage small startups. William C. Norris, chief executive officer of Control Data, says small companies produce 24 times more innovations per dollar than larger ones and 2½ times more innovations per employee.

The Broome County incubator, like others at St. Paul; Akron; Lynn, Mass.; and Buffalo, represents the first generation of successful industrial incubators.

University-affiliated high tech incubators reflect the more recent trend. Incubators with a university or high tech link include Baltimore's biomedical

incubator, the Rensselaer Polytechnic Institute Incubator Center at Troy, N.Y., the Advanced Technology Development Center of the Georgia Institute of Technology in Atlanta and the University City Science Center in Philadelphia, the original university-affiliated incubator.

The Center for Business Innovation on the campus of the University of Missouri-Kansas City is a recent incubator.

"Kansas City's center is unique," says Interim President Jack McCarthy, "because it offers scientific services that will help companies with problem solving. It also has its own venture fund, which is planned at \$7.5 million over the next five years."

The center, according to McCarthy, will function as an agent for the university in obtaining research grants in life sciences, telecommunications and computers. The university will offer its expertise in engineering, science and other professional areas to tenant firms.

Among the first tenants are Sentari Communications, a Kansas manufacturer of satellite communication systems, and Edu-Techs, an Arizona developer of a biofeedback device. McCarthy has put the two companies in touch with each other so that Sentari, with its technological resources, can help Edu-Techs make its product in greater volume.

That type of tenant teamwork is a sometimes overlooked benefit of incubators. Maximowicz is quick to point to the spirit of cooperation and sharing among tenants.

Performance Tool's Donahue says co-

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## SPECIAL REPORT

## Trends in Economic Development

operation is paying off in some rather nice dividends: "There is another machine shop in the building. When I get a job not suited to my equipment, I'll sub it to the other shop. Likewise, if they get a job they can't handle, it's subcontracted to me."

Two years into a four-year contract with the IDA incubator, Donahue says the remaining two years should help

him bankroll enough to move into his own building.

"We've come far already," he says. "We started this company in a garage. I had one machine. Naturally, we lacked any semblance of professionalism. More than the low rent, our experience at this facility has given Performance Tool that specialized, polished and professional look."

## A Mid-South Snowball

Successful business startups and subsequent expansion, of course, do not happen just at incubators. Jerry Weaver, now chairman of Mid-South Industries, of Gadsden, Ala., started his own one-man tool and die company in the early 1960s when incubators, small business assistance, bid resource centers and other economic development staples hardly existed.

Today Weaver heads a company with \$85 million in annual sales that has spun off 11 wholly owned divisions. In all, Mid-South Industries has about 1,400 employees.

A Kentuckian, Weaver found after one semester of college that higher education was not for him. He decided to learn a trade—the tool and die business—and eventually landed a job with a tool and die maker in Dayton. The Ohio company expanded to Gadsden in 1957, setting up the Alabama Tool Company.

Weaver relocated to train new employees. In 1962 he decided to strike out on his own and established the Dixie Tool & Die Company in Gadsden. A decade later, Weaver created Mid-South Industries as the holding company for subsidiaries that were spun off from Dixie Tool & Die.

"We start up a division, and that leads to another startup needed to service the first operation," says Weaver. Mid-South's 11 divisions specialize in product design and engineering and in the manufacture of military ordnance, computer component assemblies, electronic office equipment, household table-top appliances, personal care appliances, thermostat controls, metal stampings and semi-automatic hand-guns.

"This is why I like to call us a manufacturer's manufacturer," says Weaver.

Using its tool and die division, the company is able to produce customized tooling for a variety of items.

Generally, when a business as diverse as Mid-South opens new operations, the divisions are scattered over a broad geographic area. But nine of Weaver's divisions are headquartered in Gadsden.

More than anything, Weaver cites a local work force with a strong work ethic and good community support.

Gadsden's mayor, Steve Means, recently established the city's Industrial Development Agency.

To get Gadsden's IDA off the ground, Means pushed for a 2 percent retail sales tax. About \$500,000 from the tax is underwriting the IDA effort annually.

Barricks Manufacturing, a maker of office furniture, relocated to Gadsden from Chicago three years ago. Also, the city was selected several years ago as the site of a big Goodyear plant. And Associated Tool Company has decided to move into a 24,000 square foot plant now under construction.

Associated Tool's decision, of course, directly affects resident tool and die king Weaver, but he is not worried about increased competition. He would like nothing more than to see Gadsden recognized as the tool and die capital of the United States. Gadsden has established the Academy of Precision Arts, an operation conceived and strongly supported by Weaver, which will train people in the latest tool and die techniques.

Weaver will tell you that his success stems largely from the excellent training he got in his early years.

And, he says, "Somebody built this road before me, and I have to help build the roads for others after me."

## Getting Federal Business

Each year the federal government spends about \$160 billion in the private sector. But small businesses—and even some larger companies—seldom know how or where to leap into that market.

The hurdle is now a lot easier to negotiate thanks mainly to the advent of bid resource centers. BRCs are local entities established specifically to help their areas' companies cash in on the multibillion-dollar opportunities in government contracting. There are about 20 bid resource centers nationwide. Three years ago BRCs were practically unheard of.

"We weren't doing a dime's worth of government business two years ago," says Ken Dixon, president and owner of Weldtest, Inc., of Port Arthur, Tex. "But this year we're handling some \$3.8 million in government work out of \$6 million overall."

Dixon's company is just one of nearly 260 local businesses being assisted by the bid resource center in Beaumont, Tex., which started up 2½ years ago.

When it opened, the BRC was the first in the state and third in the country.

The Beaumont BRC does not charge for its services. It started with a staff of four, funded mainly with \$109,000 from federal sources. It now boasts a staff of six and about \$235,000 annually in combined state, local and federal funding—most from the Job Training Partnership Act and the Department of Defense.

It is administered by southeast Texas' Program for Human Services, a private, nonprofit organization.

Tish Foyle, codirector at the Program for Human Services, is credited with originating the idea for a Texas center, which she says was modeled after a similar center in Wyandotte, Mich. With the help of Beaumont Chamber of Commerce officials, five more BRCs are now getting ready to start up in other parts of Texas.

By the end of the year, Foyle predicts, Beaumont's center will have helped bring almost \$35 million worth of government contracts to local businesses.

One of Foyle's main reasons for wanting the BRC set up was the labor surplus in southeast Texas. Unemployment there is about 17 percent, com-



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## SPECIAL REPORT

### Trends In Economic Development

pared with the national figure of around 7 percent.

Weldtest swears by the Beaumont BRC. "We decided soon after the petroleum business collapsed that we had to look for work outside our traditional market," explains Dixon.

His business, a machine shop specializing in welding and metal fabrication, usually employs about 30 people. But with the government work he is now doing, mainly a big job from the Maritime Administration, Dixon has increased that to 100.

"We went to the bid resource center, and they got our name in front of some important people," he says. "We would never have been able to find the government contacts needed to help us with our new direction. The bid resource center has been an absolute saving grace for us."

Most of the businesses participating in the program are small—about 80 percent employ fewer than 20 people—but Foyle notes that the BRC is not there to assist only the small business person. "We've even helped a U.S. Steel fabricating operation in the area," she says.

More typical, however, of the firms looking to the BRC for help is the one Terry Samuels started a year ago. Samuels Commercial and Industrial Maintenance Company counts just 10 employees and was recently awarded a maintenance contract at the Navy Supply School in Athens, Ga. The \$79,000 contract runs for three years and was secured, Samuels says, as a result of his work with the BRC.

Another BRC client that has been actively chasing federal contracts is CNC Machine Shop, owned by Melvin Tortoris.

Tortoris began his drive for government contracts a year before the center got going.

Like Dixon at Weldtest, Tortoris did not see much revenue potential in his oil-related business. As a matter of business survival, he began to track down his own federal contracts.

He admits the process was long and tedious, taking almost three months just to identify the key government decision makers.

"When the bid resource center stepped in," he says, "the procurement process became 300 percent to 500 percent faster."

Speed, direction and clarity are the descriptions business people most often apply to the services they have gotten from the BRC.

*Ken Dixon says the Beaumont, Tex., bid resource center helped his company get \$3.8 million of government work.*

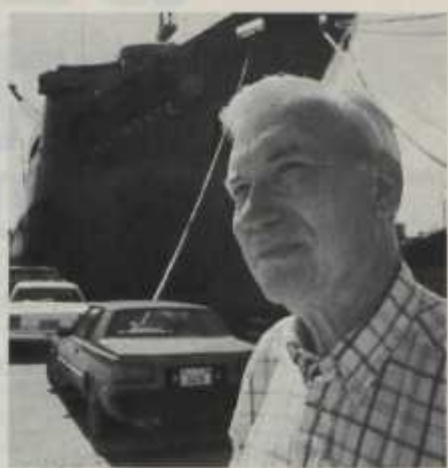


PHOTO: DEAN SMITH

The Beaumont center does not fill out individual bids. But the staff is trained to interpret the numerous regulations and specifications for bidders. The center also offers viewing or copying of federal specifications, qualifications, product lists, federal standards, military specs, manufacturers' catalogs and General Services Administration supplier price lists. It regularly holds seminars on assorted procurement-related subjects.

From the time a business person begins to work with the center, he or she is given step-by-step direction in landing a contract.

The center's staff can tell, for instance, what price the government will pay for a product and will provide information on the degree of competition in a particular product line.

The center attempts to notify client businesses when the government is accepting bids on a specific item.

Foyle points out that government contracts are by no means limited to manufacturers. "There's a need for everything," she says, "from accounting to auto parts."

The Beaumont bid resource center phenomenon is not confined to Texas. The BRC is working with other localities—from Kansas to New Jersey—in setting up satellite operations that will be able to tie into the library and other reference sources at the Texas operation.

Unlike the Beaumont center, which required about seven months to start up at a cost of about \$60,000 for its library material alone, such satellite bid resource centers, because they can share the library, will be able to launch their own programs in just a month, and at far less cost.

That means a lot more help getting the red out of red tape.



*Ray Rodriguez is director of the Colorado-based Institute for Business and Industrial Training. The institute uses Job Training*

*Partnership Act funds to train workers. It also turns some such workers into entrepreneurs.*

## Partners In Training

Remember all the rhetoric, less than two years ago, about America's lagging in technical skills? The grumbling hasn't stopped entirely, but it has quieted down.

The progress owes much to recent strides made by municipalities and states looking to get the most bang from their Job Training Partnership Act bucks, as well as from other funds available to them.

Basically, the JTPA program operates through Private Industry Councils—teams of employers and representatives of local government and labor—that become the key administrators of JTPA funds.

The public-private partnership approach is succeeding where its forerunner, CETA—the Career Education and Training Act—did not.

According to Steve McManus, a U.S. Labor Department spokesman, the JTPA program is placing 68 percent of its graduates in full-time jobs. "The program has been helping an average of 600,000 trainees a year," says McManus.

"This represents trainees already on board, those coming into the program and those moving on."

Grants are made on the basis of population and the unemployment rates of the individual states.

McManus says that for the next funding period, starting in July, 10 states will account for the lion's share of the \$1 billion in JTPA funds: California (\$200 million); New York (\$125 million); Pennsylvania (\$104 million); Illinois (\$103 million); Michigan (\$101 million); Ohio (\$99 million); Texas (\$98 million); Florida (\$68 million); Alabama (\$46 million) and New Jersey (\$45 million).

Medium to large-sized companies have been the prime beneficiaries of the program.

If a company planned to locate an operation in a given area, it could look for Private Industry Council support in the training or retraining of workers from the local labor pool to fill jobs it would provide.

But now there are signs that even smaller businesses will benefit from JTPA funding.

Take the case of the Institute for Business and Industrial Training at



PHOTO: JAMES COOKE—PICTURE GROUP

Colorado Springs. Colorado's 1985-86 JTPA grant is \$18 million. IBIT gets \$2.8 million to \$3 million annually from a combination of JTPA, local and private business sources.

"This area, not too long ago, was very big on the high tech firms," says Ray Rodriguez, IBIT administrator. "But high tech is now very soft. When it was good, about 69 percent of our training funds went to that sector.

That's how we operated for five or six years.

"Now the days of selling our area to the big high tech companies are over," Rodriguez continues, "and this institute is undertaking a dramatic reversal in its approach."

A recent survey by Development Counsellors International of 200 professional developers says that the trend away from manufacturing jobs will ac-



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## SPECIAL REPORT

### Trends In Economic Development

celerate, and so IBIT cannot replace failing high tech jobs with manufacturing jobs.

IBIT's idea, says Rodriguez, is to focus more sharply on helping and accelerating small business startups.

"I call this an entrepreneurial-contractual plan," he says, "and it's an entirely new thrust for us, because we're concentrating on companies with fewer than 50 employees."

Rodriguez and his staff of seven in IBIT's 34,000 square foot facility look for businesses that need work performed for them under contract. When the IBIT team finds one, the next step is to come up with another business to do the work. Sometimes the second business is an existing one, and sometimes it is one newly created with impetus from IBIT.

For such a creation, Rodriguez & Company will pore over a computerized list of 3,000 to 4,000 people who have been trained for jobs under the IBIT aegis. "We'll select by function the best individual or individuals suited for the contract," Rodriguez says. "Then we'll train them and match their technical competency to the contract."

The new enterprise can have space in the IBIT facility—"just like in any incubator"—says Rodriguez. In addition to IBIT training, he says, it can get advice from a member or members of the Senior Corps of Retired Executives, a national volunteer organization set up to provide expertise to small businesses that need it.

In exchange, IBIT takes a percentage of the contract money off the top.

## Where The Unions Are

The six states with the highest percentage of employees unionized are, in order, New York, Michigan, Washington, Hawaii, Alaska and West Virginia. California is second in size of membership after New York; Illinois is third and Pennsylvania, fourth.

The least-unionized states are South Carolina, North Carolina, Mississippi, Florida, South Dakota and Virginia.

For the union movement as a whole, net assets are just under \$6 billion, a record amount.

(This information comes from the *Union Sourcebook*, by Rutgers University professors Leo Troy and Neil Shefflin.)



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*Steve Means, Mayor, City of Gadsden*

Gadsden has a comprehensive community college, including a junior college and two technical schools; a large skills and subsidized training center; a full-service employment office; and an Academy of Precision Arts.

**"I employ almost 1500 people in a variety of different companies in Etowah County. They make everything from Walther PPK automatic handguns to electronic components for IBM. As a matter of fact, the skills I need are here. The productivity**

**I want is here...and at affordable wage rates."**

*Jerry Weaver, Chairman, Mid-South Industries*



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**easy. The Gadsden area is served by more than 20 motor freight lines, as a matter of fact. Frequency and quality of service are outstanding, and rates are competitive."**

*Ed Steffey, Plant Manager, Goodyear Tire and Rubber Co.*

According to a recent ACCRA survey, Gadsden has the lowest cost of living in the U.S. And it's one of only fifty cities listed in the book, "The Best Towns in America: A Where-to-Go Guide for a Better Life."

**"We moved our headquarters, executive staff and manufacturing facilities from Chicago to Etowah County a couple of years ago. We did so to take advantage of a variety of cost savings. But we also found, as a matter of fact, a great location in which to live and raise a family."**

*Tom Johnson, President, Barick's Manufacturing Co.*

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## SPECIAL REPORT

## Trends in Economic Development

*Herbert Yudenfriend, president and owner of Air Seal Insulating Company, of New Jersey, won the state's 1985 Small Business*

*Innovation Award for a breakthrough in energy-efficient insulating glass. New Jersey is using such programs to improve its business climate.*

## Keeping Businesses At Home

Attracting new businesses is a preoccupation in many a community, but keeping the community attractive to businesses that are already present is growing in importance. Recent studies show that in any given year, in any given community, only 20 percent of new jobs are created by newcomer enterprises.

"It is important for a community to give its first consideration to keeping its existing businesses," says Allen R. Wood, director, real estate, Westinghouse Electric Corporation. "Getting new industries is more dramatic, but preventing a business from moving out is just as important."

Still, it is only recently that states and localities have begun aggressively assisting existing businesses. Not too long ago, as Wood points out, most communities were busy chasing new investment, often running the risk of alienating local companies. Now the theory is that good retention can actually attract other development as well as accelerate expansion of enterprise that is already present.

Nowhere is that more obvious than in New Jersey, where an improved fiscal and infrastructure climate for industry has been working wonders at keeping businesses in the state as well as attracting newcomers. New Jersey's national ranking in general manufacturing climate has risen five places in the latest Alexander Grant and Company survey, moving to the 24th spot. A study six years ago ranked New Jersey next to last among the 48 contiguous states.

More telling, perhaps, is the fact that New Jersey is rated first in the Northeast in quality of manufacturing climate. State officials consider that a milestone in the state's changeover from smokestack to high technology industry.

Herbert Yudenfriend, president and owner of Air Seal Insulating Company, Camden, has witnessed changes in New Jersey's approach. His firm, which has 25 employees, has been making insulating glass units at the same location for 40 years. Yudenfriend, in fact, won New Jersey's 1985 Small Business Innovation Award for a patented breakthrough in energy-efficient insulating glass.



PHOTO: STEVE GOLDBLATT

Despite such success, he says he is eager to see the state create a program that offers technical assistance to small companies like Air Seal.

"It is crucial that small businesses have access to some type of research and development grants," he says.

The state has responded by putting the Governor's Commission on Science and Technology—a bipartisan group of industrial, academic, legislative and labor leaders—to work on the problem.

New Jersey is, in fact, constantly working to fine-tune what sources in the state consider an already ambitious business development effort.

For example, the Office of Small Business Assistance was established in 1981, and the State Corporation for Business Assistance was formed in 1983 to provide low interest loans of up to \$500,000 to companies to finance job-creating expansion.

Allocation of money recently was approved for a New Jersey Local Development Financing Fund, modeled after the federal Urban Development Action Grant. The public and private investment generated by this fund is expected to total about \$250 million during the first round of lending.

New Jersey is also pursuing public-private partnerships in order to encourage business development. In this area, Public Service Electric and Gas Compa-

ny, the state's largest utility, and New Jersey Bell have their own expansion, retention and new investment programs.

For instance, PSE&G offers reduced power rates to new firms that expand their energy consumption in nine designated municipalities that have high unemployment. And New Jersey Bell in 1980 started a business retention program to study requirements and problems in specific localities. In 1983 it formed a partnership with the New Jersey Department of Commerce and Economic Development to expand the program.

So far, more than 40 studies have been completed identifying firms with special needs.

The state's business retention program is drawing widespread attention. Minnesota, California, Connecticut and Kentucky have received briefings from the New Jersey Commerce Department and New Jersey Bell officials, and inquiries have been received from other states, as well as private industry and national organizations.

Clearly, one of the key reasons why business retention is assuming more significance is an unsettling statistic from the U.S. Department of Labor: About 2.3 million manufacturing jobs have been lost in the country since 1980 as the economy has been making the





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#### Trends In Economic Development

transition from dependence on heavy manufacturing to high tech and services.

But there are pockets where manufacturing firms continue to thrive. Take the case of Wichita Falls, Tex., where manufacturing companies are locating and expanding at a considerable pace.

"Twenty years ago Wichita Falls faced the same problem America's smokestack cities now face: a declining basic industry," says Michael M. Lawson, executive vice president of the Wichita Falls Board of Commerce and Industry.

"For Wichita Falls it was oil. But we came up with \$3 million in private sector money and attracted solid outside companies."

Those companies are staying put in Wichita Falls—and expanding. That has translated into almost 15,000 new

jobs since 1970, in a city with a population of about 104,000.

Much of this job creation is coming from the manufacturing sector, thanks to firms like Certainteed Corporation, the Cryovac Division of W.R. Grace, Howmet Turbine Components Corporation, Stanley-Proto Industrial Tools, Inc., Levi Strauss & Company, PPG Industries, Sprague Electric Company and Washex Machinery Corporation.

More than a dozen such firms have completed major expansions in Wichita Falls, a solid retention rate by any yardstick.

That has spurred a form of retention within retention.

Expansion by larger corporations has made a splash with many ripples in the small business pool.

"There is not a business in town that I don't have a purchase order from,"

## A Checklist For Developers

The following checklist will help business people evaluate the effectiveness of a local economic development program.

It is a rundown of what community leaders should be doing if they are indeed serious about attracting new businesses and assisting existing ones.

- Community officials should undertake occasional labor surveys in their area to ascertain the number and skills of residents looking for employment. That labor data base should be readily available both to existing businesses and those that might want to locate there.

- Several suitable industrial sites of approximately 10 to 300 acres each should be identified in the locality. These should have good access to roads, railroads and utilities. Action—through zoning or long-term options—should be taken to hold these sites for new businesses or local expansion. Site location maps should be drawn up showing the local infrastructure and the approximate sale price listed.

- A procedure should be developed with nearby vocational training schools to assist businesses interested in establishing training or retraining programs.

- Local community leaders should be making full use of state government assistance.

- Similarly, local leaders must be aggressive in expressing their opinions and ideas to state legislators on any matters affecting economic development in the community. This is particularly important in cases where state officials are considering enacting legislation that might discourage new business.

- A computer database of facts and statistics should be accessible. If civic leaders do not have computer facilities, they must try to strike an arrangement with county, regional or state development offices to use their computer systems. If this cannot be done, brochures and fact booklets (updated regularly) should be on hand.

- The local development initiative should be lean and effective rather than fat and showy. Targeted efficiency and simplicity goes just as far as—if not further than—fancy breakfasts, long luncheon speeches and big limousines in making a good impression on representatives of well-managed firms.

- Leaders must work to make the community attitude attractive to business—both existing and prospective. They should be giving existing companies their fullest support and cooperation before they try to woo new firms to the area. Good retention practices will have a positive compound effect.



says Roger Krueger, owner of Custom Metal Services. CMS does tool and die fabrication and has built a \$2.5 million sales volume in the eight years since its initial startup.

Krueger left Chicago for Wichita Falls to join Allis Chalmers there as manufacturing engineer manager. He stayed for almost four years and then decided to go into business for himself in 1978. He says Allis Chalmers supported his fledgling company with orders and loans.

Today CMS, which has 42 employees, is far from fledgling status. It has moved from a 3,000 square foot facility into 30,000 square feet.

The major portion of the firm's current business is local, and Krueger notes he is "riding the local expansion" of such home-based companies as PPG and Howmet.

Howmet recently awarded CMS a \$750,000 contract.

But even some of CMS' present growth is not staying within the Wichita Falls city limits. Lawson's Board of Commerce and Industry has put CMS in touch with a client as far away as New Jersey.

"Anything our industry people want done," says Lawson, "we'll do."

A number of incentives have been developed to meet the needs of a growing economic sector, according to Lawson.

The city's annexation policy allows an industry to delay the annexation of its property into the city limits for five or seven years.

Though the firm pays twice the usual charge for water and sewer service, payment of city taxes is delayed during this period.

Another response is the creation of two- and four-year programs at Midwestern State University to provide students with an applied degree in engineering technology.

And like other areas, Wichita Falls holds industry appreciation programs—ceremonial luncheons or banquets at which business operations in an area are honored. "But ours are a bit different," says Lawson, "because if the business is a branch of a corporation headquartered elsewhere, we always include executives from corporate headquarters."

One of those executives recently remarked, "There is an opportunity to make what you want of your business and your life here."

"It's a very positive, progressive and upbeat city."

## When To Look Abroad



PHOTO: MARVIN SCHWARTZ

Last year, according to U.S. Commerce Department statistics, American investment abroad declined marginally—about 3 percent. In recent years, this country has seen more of the reverse—foreign companies deciding to set up shop in the United States. Still, it is a two-way street, and the motivations for moving out of one's home country are generally the same.

According to a number of experts in the field of foreign investment, the driving force behind a company's decision to cross international boundaries is the marketplace.

"Toyota obviously wanted a stronger foothold in the U.S. market," says one observer, "so it teamed up with another giant, General Motors, for the well-publicized Fremont, Calif., operation."

Naturally, an arrangement on the scale of the General Motors-Toyota deal grabs the national headlines. But it is increasingly evident that foreign countries—and even the U.S. government—are trying to make it easier for the smaller business person to establish an offshore entity.

Take the Reagan administration's Caribbean Basin Initiative.

The CBI program is aimed mainly at bolstering the economies of 27 developing countries in Central America and the Caribbean. It offers U.S. companies with plants in those countries the right

*The Caribbean Basin Initiative has added to Barbados' attraction for U.S. firms. These island workers are engaged in microchip manufacturing for one such firm, Intel Corporation.*

to import many goods duty-free. And it promotes Caribbean investment opportunities for such companies with various services—free accounting help, for example.

In 1984, the CBI's first full year, new business activity involving U.S. enterprises and the Caribbean region totaled \$154 million, stemming largely from 250 new U.S. investments. Those investments were not confined to large, multinational corporations.

What's more, bilateral trade between the United States and the Caribbean increased \$700 million in 1984, with exports from the beneficiary countries up more than \$400 million.

The theory, of course, is that as the CBI nations' standard of living increases, people there will be buying more goods and services from U.S. suppliers.

"We in Puerto Rico feel that the CBI program creates a market opportunity for the Caribbean Basin countries," says Esteban Davila, executive director of the Puerto Rico Maritime Shipping Authority. "But it falls short by not providing a direct means to produce and deliver the product to that market."

Davila is in favor of the "twin plant" concept as a means of immediately starting an economic development program in the Caribbean. Key to the con-



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\*\*\*\*1985 J.D. Power & Associates compact truck survey (Calendar year 1984, Ward's Automotive Report 11/84) 3-speed manual transmission.

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## Trends In Economic Development

*Some Puerto Ricans propose that U.S. companies' funds accumulating in island banks be used as the basis of a Caribbean economic development*

*program. This technician works for American Bentley Corporation, which makes medical equipment.*

cept are two tax provisions. One is in the Internal Revenue Code—it allows U.S. firms that operate in Puerto Rico and meet certain conditions to repatriate profits without paying federal taxes.

The other is Puerto Rican—a provision that such firms must leave a certain amount of the profits in Puerto Rico or see them taxed by the island commonwealth.

"There are more than 2,000 U.S. companies now operating under this section of the law," Davila says. "These companies have accumulated over \$7 billion in our banks. We propose that the banks with those extra deposits lend money to any U.S. company with a plant in Puerto Rico that will open a manufacturing branch in one or more of the 27 designated countries."

Financial incentives such as this can go a long way toward attracting an American company to another nation. But money is not everything.

In the last two years eight American companies have set up operations in Barbados, a CBI nation, according to Erroll Humphrey, North American director of the Barbados Industrial Development Corporation. Humphrey says the CBI program has helped prompt inquiries from U.S. businesses, adding, however, that Barbados' record with American companies has always been pretty solid.

"Barbados has various incentive packages," he says. "But the companies have also located there because of government and political stability, a very good social structure and one of the best infrastructures in the Caribbean."

Companies that chose Barbados long before the CBI came into existence include Playtex, Teenform, TRW, Galt Controls and Microdata.

Officials of a number of companies agree that Barbados has an excellent educational system and that this was a prime factor in decisions to establish a Barbados arm.

Barbados boasts compulsory attendance in school until age 16, with free tuition through the university level. That gives the tiny nation almost 100 percent literacy.

The Mediterranean also has been attracting a share of American business investment. Greece is one of the newcomers in the push to bring in U.S. firms.

According to Nikos C. Papadopoulos, president of Hellenic Development Corporation in New York, more than 400



PHOTO: MARVIN SCHWARTZ

American companies now have operations in Greece.

"Many of these are smaller, entrepreneurial firms," Papadopoulos says, "but there are also some very large companies."

Financial incentives play a big role in Greece's ability to attract foreign businesses.

"It's possible to get 65 percent of your total investment from a Greek government grant," says Papadopoulos. "And there are no duties on importing foreign equipment."

Cost of labor, of course, is also a prime factor for U.S. companies looking abroad.

Greece, according to Papadopoulos, has labor rates about half those in West Germany.

They are, he says, the second lowest in Europe (next to Portugal).

Still, when shopping the world for a new investment locale, American business people have to be up on a given country's set of criteria concerning foreign investment.

For example, Greece is not really welcoming assembly-type operations. "In order of priority," says Papadopoulos, "Greece is looking for projects that increase its own technology, increase its exports, help it substitute for imports and create jobs."



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# Negotiating Better Deals

By Jeffrey Winke

**T**here is nothing mystical about negotiating. It is something we do every day. Wherever there are needs to be satisfied, goals to be reached or differences to be solved, there will be negotiating.

Common as it is, many of us feel uncomfortable as negotiators. A lot of this discomfort arises from the widespread misconception that one person always gets the good deal in negotiating while the other guy always gets gypped.

This is not true. The value of effective negotiating is that it prevents lopsided results. Through the give and take of negotiating, extremes are avoided, the best deal is found and, since all parties contribute to the outcome, the results are likely to be longer lasting.

Forging the best results in a business negotiation often requires the use of some tough tactics, but one of the most effective is not that tough: Simply ask for a better deal. Many times all it takes is a little gumption to say, "Is this the best you can do?" Sometimes just asking will result in a better price, better terms, better quality or better service.

Here are 15 other tactics to help you negotiate more effectively in your business dealings.

**1. Be a bit crazy.** Act out of character by dramatically demonstrating your emotional commitment to your position. Glare, raise your voice, even stamp your feet. This tactic may unnerve your opponent a bit, but it will show your resolve.



ILLUSTRATIONS: CAMERON GELACH

**2. Leave yourself room.** Starting with greater demands than you expect to achieve provides more room for compromise. Remember: Those who aim higher will do better.

**3. Be stingy.** Make concessions slowly and grudgingly. Drawing out the negotiation by making small concessions will be to your advantage, since it shows commitment and indicates your position is closer to what the final result should be.

**4. Negotiate with limited authority.** Being able to say "If it were up to me" is often an advantage. Having limited or no authority to make a final decision gives you time to think, hold tight and get the full story of your opponent's position. Best of all, it provides your opponent with a face-saving way to give in; he can accept your final position without looking like an inadequate negotiator himself.

**5. Bite your tongue.** The less your opponent knows about your motives, limitations and deadlines, the better. Get information from your opponent; don't give it to him.

**6. Use the power of competition.** If you are a buyer, remember that if the other party thinks there is competition, there is competition. Even if the seller is offering a one-of-a-kind product, you can argue that you have a choice between buying a product new and secondhand. You can also create the appearance of competition by saying you

*These tactics—some tough, some not—may help you get favorable results in a business negotiation.*

have a choice between buying a product or service or doing without it.

**7. Call a time-out.** If the negotiation is heading for a deadlock, call a time-out and tell the other party you want to consult with your partner, your boss or an outside expert. (Use this opportunity to call your dear old mom to send her your love.) The time-out will give the other person an opportunity to doubt and reconsider, and it will give you time to come back with a reaffirmation of your position or perhaps with a small concession.

**8. Beware of quick deals.** If you are moving too fast, there isn't time to get the whole picture, and it is too easy to talk before you think. Unless you are very well prepared and the other party is not, it is better to give yourself plenty of time to think.

**9. Surprise.** A sudden shift in method, argument or approach during the negotiation can be used to make a point, unsettle your opponent or force a concession. It can be as simple as a



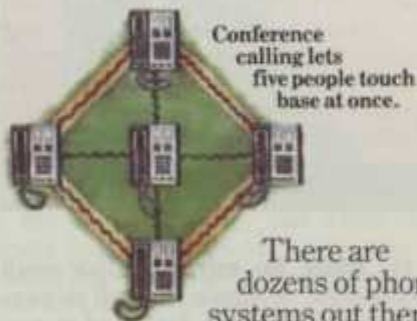
change in tone of voice or as dramatic as flying off the handle.

**10. Watcha gonna do now?** Make a bold move against the other party and wait for a reaction. This is risky, but it can be effective. Example: If a contract is sent to you with a clause you dislike, cross it off, sign the contract and return it. This tactic forces the other party to accept the amended contract or



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## MANAGING YOUR BUSINESS

### Negotiating

reopen the negotiation. Quite often the contract will be accepted.

**11. No pain, no gain.** Make the other party work for every concession you wind up making. People do not appreciate something for nothing. Struggling for each concession will make the other party likely to demand less and feel better about each concession won. The negotiator who gives freely will lose greatly.

**12. Use the budget tactic.** "I really like your product, and I really want it, but I just can't afford it." This approach strokes the ego of the other party by indirectly asking for help.



**13. Nibble for extras.** Go for small concessions. A nibble is small in comparison to the whole deal. And it may be important to you, but not to the other person. Example: "I'll take the tape deck if you throw in a couple of blank tapes."

**14. Be patient.** Don't expect instant acceptance of a new idea. Hold tight, be patient, and the other party may eventually accept your position.

**15. Don't corner your opponent.** Leave room for him to save face. In a successful negotiation, everyone walks away from the table happy with the result. The basic rule is that there should be no losers, only winners. ■

*Jeffrey Winke is manager of corporate communications at Verex Assurance, Inc., Madison, Wis. He has taught negotiation skills at Marquette University.*

To order reprints of this article, see page 89.



# Dear Diary: I'm Now A Franchisee

*"I love it, and I would do it again tomorrow."*

By Ripley Hotch

**T**he point of no return, says John Bledsoe, is signing that check for the franchise fee.

"Up to that point," he says, "it's almost like you are daydreaming or playing. But the fee is paid to the company and signed as a personal loan, so you're personally liable. It's a big commitment. I have to live with the payments for eight years."

He adds with a laugh: "It gives you a lot more incentive."

Bledsoe is one of four new franchisees who agreed to keep diaries for NATION'S BUSINESS, starting from the time they first became serious about franchising through the first few weeks they were in business.

Their experiences offer special insights to those who are contemplating entering the world of franchising.

John Bledsoe opened his Postal Instant Press quick printing franchise in Holyoke, Mass.; Steve Schumacher opened a Spring-Green lawn care franchise in Carbondale, Ill.; Shirley Porter started a franchise of Video Data Services, a videotaping counterpart of a commercial photographer's operation, in Birmingham, Mich.; and Franklin Brown opened a National Video store, renting tapes for home videocassette recorders, in Wilton, Conn.

All of them wanted to be the boss, just as do most people who decide to start their own businesses.

"To do anything, you had to get agreement from so many people," Steve Schumacher says about his job as an adult education program manager at Southern Illinois University in Carbondale. He held on to that job while he started out as a franchisee of Spring-Green, of Naperville, Ill. "I had so many bosses. I wanted to make the decisions."

They also wanted better odds than the average 20 percent success rate of small nonfranchised business startups. They turned to the tried format of a franchise and the ability to be able to call on someone—the franchisor or fellow franchisees—when there was a problem.

Problems along the way were often unexpected: John Bledsoe found out that his partner, daughter Dorene Pennell, was pregnant; Steve Schumacher learned his wife was pregnant, and he

*John Bledsoe and daughter Dorene Pennell were afraid her pregnancy would hurt the chances of getting their PIP printing franchise open.*

*"Are we doing the right thing, or am I crazy?" he wrote in his diary. "At age 47 I should be settled down and content."*



PHOTO: T. MICHAEL REZA

had been counting on her income to help through the first year; Shirley Porter's first tape was a mess; some of Franklin Brown's store fixtures were destroyed in a trucking accident.

But the new franchisees all prevailed, successfully going through the major stages of the franchise process: investigating, choosing the franchise, starting up, and making it through the opening and first few weeks.

## The Investigation

The major first step for a prospective franchisee is to investigate. Schumacher's experience in finding Spring-Green is typical of most franchisees'. From his diary:

**February, 1985:** "I tried worm farming, tree farming and forest work, but they did little or nothing to solve my dilemma about being my own boss and making good money. I started looking



## MANAGING YOUR BUSINESS

## Dear Diary: I'm Now A Franchisee

*Shirley Porter videotapes the wedding of early customers Laureen and James Mulligan. Porter knew nothing about videotaping, when she started*

*investigating franchises, and made so many calls that she told her diary, "My phone bill is going to look like the national debt!"*

at other business alternatives. I knew I liked working out-of-doors, and I get along well with people. But I had no idea what I was going to do. I started reading about starting businesses; I read the classifieds daily for business opportunities; I talked to friends."

**March, 1985:** "I saw two ads for professional lawn care services. Carbon-dale and the surrounding area really could use one. I called the one with the biggest ad. They told me they were looking for someone to manage their business for them. I told them I would think about it. I never called back. I was tired of running things for someone else. I wanted to be No. 1. I called the one with the little ad, Spring-Green."

**April 3:** "I was impressed with the pamphlets and articles Spring-Green sent me. It showed the company was into selling itself and its product. I filled out the questionnaire and returned it. But I also began to have some misgivings. Did I really want to give up a sure thing and a steady income for the unknown? What if it didn't work?"

**April 10:** "The response didn't take long. They want to come down to speak to me to learn more about me."

Jim Gurke, director of franchise marketing for Spring-Green, says that the investigation has to turn up not only the prospective franchisee's financial status, but his determination.

"In marginal situations," says Gurke, "we look heavily at personal qualifications: education, experience, enthusiasm, the business plan. Stick-to-it-iveness goes a long way in the evaluation of a franchisee. It's not just a matter of putting their dollars on the line."

Shirley Porter's investigation of Video Data Services, according to her diary, was intensive. She and her husband, Jack, a sales representative for a plastic automotive parts company, had talked about going into a business that was different from what either was doing (she was a salesperson in women's fashions).

She and Jack had already talked of doing something with video services, because they felt that video was the wave of the future, and they had two sons who had had some experience with videotaping.

"I've always been one of the top salespeople where I've been," she says, "and I thought, 'If I'm that good, why shouldn't I be doing it for myself?'"

The Porters were on vacation in Flor-



PHOTO: JIMMIE CLARK

ida when they saw a notice for a franchise opportunities trade show.

**January 26:** "Went to franchise show in Tampa. Became very interested in videotaping company."

**January 31:** "Went to library and took out every book on franchising. There were only about six available."

**February 25:** "Now feel I could intelligently answer any question about franchising."

**March 5:** "Have now been in contact with two companies. One is typical franchise with royalty fees and five-year contract. The other, Video Data Services, is like a franchise except no contract or royalty fees, only \$250 every six months."

**March 25:** "My phone bill is going to look like the national debt! Have called affiliates from both companies plus both presidents. Nagging question: Do I want to sign a five-year contract and

pay 6 percent of gross plus 3 percent advertising fee?"

**April 18:** "Made decision today to go to Rochester, N.Y., to investigate Video Data Services."

**April 20:** "Was very impressed with the organization and what they can do for me. Made the decision before we left Rochester. This is it!"

"Shirley was enthusiastic from Day 1," says Stuart Dizak, president of Video Data Services. "She had made up her mind that she would give it her all. She checked us out more thoroughly than anyone else ever did."

Dizak says her investigation provides a model that every prospective franchisee should follow. "She contacted our bank and the Better Business Bureau and flew in here," he says. Also, she talked to a number of franchisees, particularly franchisees who had been with the company for more than a year.



*Franklin Brown will be a multiple franchisee of National Video while keeping his job with a consulting and executive search firm.*

*Dominic Toce and Patricia Montelleone wait on customer Sandy Simpson at Brown's National Video franchise. As opening day*

*approached, Brown wrote, "I take a couple of tranquilizers and get myself under control. These have got to be some last-minute panics."*



PHOTO: LA BIANCA STUDIOS



PHOTO: MICHAEL KEZA

### The Choice

Besides the stability of the company and the help it offers the franchisee, its name is important. The franchise fee is, in fact, paying for the national name recognition; the more famous the name, the higher the initial franchise fee and monthly royalties are likely to be.

That was a major factor in John Bledsoe's decision to go with the Postal Instant Press franchise. His daughter, Dorene Pennell, was experienced in graphic arts and printing design. Bledsoe himself had been a terminal manager for a trucking company, but had scored well in the artistic category on an occupational profile test given by a psychologist friend. So the graphics side of printing appealed to him.

Having decided on the business, their task was to select the right franchise—or whether to go with a franchise at all.

"I felt that Dorene and I could have done it on our own," Bledsoe says, "but we would have had to start smaller because of extra expenses, and we would have taken a lot longer and made a lot of mistakes."

**October, 1984:** "We decided to purchase PIP, even though their royalty fee (8 percent plus 4 percent for advertising) was twice as much as Print Shack's. I guess the decision was made mainly because PIP was a name we both recognized, and we felt it would give us an edge over the others."

**October, 1984:** "Even though I don't know much about this area, I feel I would be comfortable in this type of business."

On January 6, Bledsoe and Pennell went to California to interview at PIP headquarters. Decisions on who will be a franchisee are two-way; the franchisor has to decide if the franchisee is financially qualified as well as personally suited to the business.

Says Bonny LeVine, Postal Instant Press vice president of special projects: "We prefer outgoing people who like people. This is essentially a people business, and satisfying people is important. The person who can get along with others will succeed."

From Bledsoe's diary:

**Jan. 8, 1985:** "I'm glad we settled on PIP. We were interviewed by seven or eight people. At first I felt this was just a show to make us feel that they were careful about whom they sold a franchise to. But they seemed sincere and concerned about whether or not we would be good PIP owners."

**January 20:** "We have to let them know if we still want to go ahead. All reports on the interviews were favorable. Now I'm really starting to get nervous. Are we doing the right thing, or am I crazy? At age 47 I should be settled down and content."

**February 2:** "It's a go! We are scheduled to go back to California for the training class that starts on March 11."

### The Startup

One of the most important parts of starting up is coming up with the necessary money. Franchisors try to help franchisees through that stage.

Franklin Brown bought a franchise from National Video. With 570 units it is the largest chain of franchised video specialty stores.

He has a teen-age son, and was aware of the growth in sales of video machines. He believed that growth would continue unabated and saw an opportunity to become a multiple franchisee—owning several National Video Stores.

Brown, who is vice chairman of Paul Stafford Associates, a New York management consulting and executive

search firm, made a thorough financial investigation.

**April 2, 1985:** "Spent the day devising a revised personal financial statement and a balance sheet for the store. The preparation for any presentation to a potential lender is something that National Video guides the franchisee through in its operations manual. One is always haunted by the fear of running out of money before you actually get something up and running. Moods swing from sheer terror to total euphoria daily."

**April 3:** "Called several retailers in the new center where my store will be located and also went down and physically counted cars at odd periods during the day to get an idea of traffic flow. Finally quit in the late afternoon because the numbers looked so good that I must be doing something wrong!"

**April 6:** "The Disney tapes arrived and have been shrink wrapped for display. Also got my initial offer of office supplies. Every day it seems that I review another trade publication."

**April 10-11:** "I attend a refresher seminar with National Video franchisees from the Northeast. Make it a point to ask the attendees what their weekly movie rentals are and go into total panic as the numbers they use are considerably below mine. Late in the session, however, I am somewhat encouraged by the seminar leader's comment that some 80 to 90 stores in the system do more than \$20,000 a month in software."

**April 21:** "PANIC! I get a letter from a possible source of credit rejecting my application due to information obtained from the Connecticut Credit Bureau. I can't imagine what the negative could be, since my credit rating is extraordinarily good. I alert those to whom I had applied for credit about the



## MANAGING YOUR BUSINESS

## Dear Diary: I'm Now A Franchisee

Steve Schumacher loves the outdoors and was anxious to leave an inside job for his lawn care franchise. "It hasn't

been easy," he wrote, "but nothing is better than having a great day running your own business."

problem with the Credit Bureau. I want to make sure they heard it from me. I'm sure it's some sort of error."

**April 22:** "I continue to prepare my presentation for the banks."

**April 23:** "Talked with a computer leasing professional in the Midwest who also owns nine video stores. When I told him what my rent was going to be, his quote was 'You're not going to make it.' Ugh."

**April 25:** "The reality of the imminent store opening comes sharply home as 800 tapes and the initial supply from National Video arrive and are stored in my garage. It is a big two-car garage, and one bay is filled with these materials. I told the children to tell no one that we have tapes in the garage."

**April 29:** "I go to see another banker, armed with the presentation. It works! He calls me back the next day with \$100,000 in revolving credit for the store."

And somehow, the franchisee has to find time to attend that all-important training session. That is where the franchisor imparts the basic information about the product and the way the business should operate.

Shirley Porter's training session with Video Data Services was in Charleston, S.C.:

**April 24:** "Arrive in Charleston at noon. Have read all of the operating manuals a couple of times. Very confusing."

**April 25:** "Class started 9 a.m. The camera operation and technique was explained. One hour off for lunch. Class ended at 7 p.m. Homework—read marketing manual for tomorrow. Sleep finally came about 2 a.m."

**April 26:** "Class started 8 a.m. Marketing plan is discussed. One hour for lunch. Class ended at 7 p.m. Had to go out and shoot two-minute program with partner. Exhausted."

**April 27:** "Class started 8 a.m. Learned how to edit program. Prizes were given for best program. Came in second. Not too shabby for a beginner."

"The most critical point for franchisees is the 30-day period after training class," says Video Data's Dizak, "because that's their point of strongest motivation. We follow up week by week. If somebody doesn't get moving right away, his chance of success drops rapidly, even if he's invested \$12,000. People just put it off."

Shirley Porter did not put it off:

**April 30:** "Goal reached—Angel Video Production is born."

**May 10:** "Taped our local elementary



PHOTO: JOSEPH JAMES

school play 'Annie.' Still not real comfortable with camera, but it'll come."

**May 11:** "PANIC! Reviewed tape. It's really not good at all. What am I doing wrong?"

**May 13:** "Called my affiliate in West Virginia who specializes in plays and recitals. He told me exactly what I should have done. This is great having someone I can call on to give me advice. Who would I call if I were in business by myself?"

The network of affiliates is one of a franchise system's major strengths. Chances are, in any well-developed system, that one or another franchisee has come across the problem the beginner is facing.

Frequently, in her diary, Porter talks of calling on the other affiliates, particularly the one in West Virginia. "Without them, I would have been lost," she says.

Opening a new business is not unlike having a child, but John Bledsoe and his daughter may have carried it the ultimate step. Their case illustrates how a franchisor will support a franchisee with unusual problems. From Bledsoe's diary of his training sessions:

**March 11:** "Class started at 8 a.m. We were told that if any of the women were pregnant they should talk to the instructor after class. Everyone is very concerned about Dorene being around the chemicals because she is pregnant. No one seems to know whether the chemicals could affect the baby. Dorene will take the classroom training in the mornings and go back to the hotel in the afternoons. I will learn the press and camera operations. I'll be able to train Dorene after the baby is born."

**March 14:** "Everything seems to be working out now. Dorene felt so bad—like she had let me down. No problem; we'll work it out."

**March 16:** "PIP corporate took care of the hotel for the additional days we were there before class started. They said it was a present for the baby. Can hardly wait to see 'our' store."

**March 20:** "Our opening day will be on Dorene's birthday—she will be 25 on March 25. A good sign (I hope). Charles Carson, from PIP corporate, had almost everything set up in the store when we returned from California."

**April 1:** "Charles stayed with us the first week and will return next month for three more days. He certainly has helped put us at ease."

National Video President Ron Berger says a crucial time for any franchise is "those last hours before opening day. At that point the franchisee has his life savings on the line and has done everything he can think to do. He is uncertain if the business will be there or if he'll be able to handle the customers."

Heading for his opening, National Video franchisee Brown had plenty of anxious moments. Although he had more business experience than the other three new franchisees, he had more problems, because his store was the largest and had more employees and stock.

**May 7:** "A personal setback occurs when I learn that my blood pressure has gone up significantly since last taken in November of '84. Clearly the stress of getting the shop moving is having an impact on my health."

**May 17:** "The second ad for new employees appears in the local paper, and this time we do much better in terms of response. By the end of the day we've interviewed 16 people, most of whom are younger. My manager, Dominic Toce, will schedule another meeting with 10 of them."

**May 19:** "I get a call from the people doing the store's fixtures. The truck



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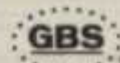
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## MANAGING YOUR BUSINESS

## Dear Diary: I'm Now A Franchisee

had an accident in New Jersey. I have immediate visions of total disaster, but apparently the trailer of the truck was not badly damaged, and they feel the shipment is in good shape."

**May 30:** "We decide that our 'soft' opening should be Monday, June 17, and are shooting for a grand opening beginning Thursday, July 11, and continuing through the 14th. Since National Video sends representatives, we schedule with them."

**June 4:** "My manager and I meet during the morning, and he tells me that the job supervisor at the site has indicated that the developer is way behind on paying the contractor and thus there is very little labor on the site at the moment. This is all we need. If the developer is in trouble, then we're going to be stuck with a half-finished center."

**June 5:** "I spend five hours paying bills, and this is a very stressful situation as most of the bills are related to the store. Panic! I take a couple of tranquilizers and finally get myself under control. These have got to be some last-minute panics."

**June 14:** "We move all the materials and tapes out of my basement to the store and begin setting up the stock, helped by my son and two of his friends, who set up a production line to stock the shelves."

**June 17:** "At last, the big day! A National Video staff member, who does nothing but open stores and has opened about 70, arrives to assist us in the first two days. In terms of stocking the

store, laying it out, positioning things and refining techniques for dealing with customers and with store operations, his help is invaluable. While we have run several ads in the last month, we've mistakenly run the ad announcing the opening date as a quarter page, and I am sure that very few people even noticed it. Our total first day receipts are about \$70, which apparently is above average for most National Video stores."

**June 18:** "My 50th birthday—happy birthday!"

Since its opening, the store has done very well, says store manager Toce: "It's right on target. Traffic is increasing every weekend, and we're seeing about 200 new customers a month."

### The Present And The Future

Opening day is great. The baby is born. But it has to take some baby steps.

Lawn care franchisee Steve Schumacher:

**August 5:** "Starting a new business takes a lot of energy. One must have the proper mental attitude to survive. And keeping this attitude takes a lot of work or energy. When things are going great, it is easy to have the proper attitude, but things do not always run smoothly. People cancel, cash flow is a problem, sales slow down, people complain about service. Or a little kid eats the fertilizer pellets because another little kid tells him it's candy. Great for business!"

**September 1:** "The guy I had help-

ing me do lawns found a full-time job at a higher salary. This meant I had to do everything. Get up at 6:30 and fill the truck and do paper work; go to work at the university at 7:30; get back home at 12:30, do the scheduled yards, estimates and service calls; get home at 5 and then do telemarketing and follow-up till 8:30. Not much time to reflect."

Franchising is usually a family affair, as well. Porter credits her two sons, Tim and Michael, for their help through the technical difficulties.

Franklin Brown depended on his son for help at stocking; Steve Schumacher and John Bledsoe depended on spouses who could keep working.

For those who had full-time jobs when they opened a franchise, a major question is when they can look to be supported full time by that franchise.

As a franchisee, Schumacher has found some days "have been a little depressing, when sales weren't going well. Then sales would pick up. And it's been depressing when big bills came due, and I had to go into savings because people hadn't paid up."

He will be quitting his job sooner than the franchisor would like. "Spring-Green says that you'll need other income the first year, that the best you can hope for is to break even."

Franklin Brown will stay in his job. He will open three more National Video stores, at least.

John Bledsoe had the decision made for him. After he opened his printing operation store in March, the company he was working for wiped out his job, and he was dependent on his wife.

"Security for Irene is working for a company for a lot of years," says Bledsoe. "But I keep telling her I worked for five different truck companies that went out of business."

His franchise is doing well, despite some downs. Bledsoe says he hopes to break even this year and see a profit next year.

The new franchisees are glad they did it. As John Bledsoe says, "I have some nervous periods, and I'm not normally an uptight person. At times when we go a couple of days without a lot of business, I wonder, did I do the right thing? Deep down, I know I did."

And, from Steve Schumacher's diary: "I love it, and I would do it again tomorrow. It hasn't been easy, but nothing is better than having a great day running your own business." ■

To order reprints of this article, see page 89.

## It's All In The Marketing

A successful new franchisee is often original at marketing the franchise.

Franchisee Shirley Porter of Bloomfield Hills, Mich., is a prime example. She was a sales person in high fashion before starting her service videotaping weddings, school plays and household items for insurance purposes. "Everyone thought I would be a fashion consultant," she says.

From the beginning, she thought in terms of marketing:

"I chose the name Angel Video Production because I wanted to be an 'A' in the phone book, and I wanted to note the feminine aspect of the busi-

ness. What I'm hoping to do is get a lot of jobs, satisfy people, then in a year raise my prices, and do it without losing business."

She worked hard to get two weddings in August and then thought about how to expand on that:

"I have a booth in a bridal show in Detroit's Renaissance Center, where there will be about 3,000 attendees."

And to get into new areas:

"I really want to get into legal-court reporting by videotaping. That's going to be very big." She is taking the courses to be certified as a videotaping court reporter.





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# The Long Road To A Patent

By Sharon Geltner

**A**fter Thomas Edison's 50,000th experiment failed to find a new source of natural rubber in plant matter, an assistant surveyed the lack of results and said he was discouraged. Edison's response? "Results! We have wonderful results. We now know 50,000 things that won't work!"

If you are an inventor, keep Edison's unflagging enthusiasm in mind, even after you have perfected your invention. Plenty of patience and resourcefulness were required to come up with the invention, and the same qualities will be needed to get a patent to protect it. Only this time, you will need something extra: a good lawyer.

If all goes well, your reward will be a 17-year commercial monopoly on your idea. And, the odds are that all will go well—65 percent of applications to the U.S. Patent and Trademark Office later result in patents. But getting a patent is a time-consuming process in a complex, arcane system.

"Get a good patent attorney into the act early in the game," advises Harry Manbeck, general patent counsel at General Electric Company in Fairfield, Conn. "Then you can get advice, for example, on whether you need more experiments to round out what you've got, and whether it is adequately documented."

All along, you should keep a technical notebook and written record of various bits of evidence of your research (dates you ordered parts, for example). To play it safe, all diary entries should be witnessed and dated, in writing, by at least one other person. It may sound like too much bother, but if someone else should come up with a similar invention or process, you would have to prove you conceived of it first and practiced it earlier.

The next step in protecting your idea is to establish the date of invention. To do so you must describe your idea in writing and include detailed drawings.

Your description should refer to the drawings with numbers or letters marking various segments and indicate how the idea works, how it can be used,

*Sharon Geltner is a Washington freelance writer who specializes in business topics.*

*A patent on his Ryan Stormscope, an air safety device, has meant a profit for Paul Ryan on each of the 8,000*

*units sold. The scopes help pilots locate storms.*



PHOTO: MAC SHAFER

and how it is an improvement over what has been done before. (The Patent Office does not require models, although they are good for helping potential investors understand what you have designed.)

You should sign the document, date it and choose as witnesses two persons who did not share in its development and can keep a secret until your patent application is filed. There is no need for a notary, and don't think that mailing a letter to yourself will provide evidence that will hold up in court, says Washington patent lawyer Tony Figg.

A patent search is crucial at this point. It is a tedious, manual project, though without cost if done at a Patent Office library. Automation of the patent search system is unlikely before 1987 or 1988. The Patent Office has libraries in many cities, but the most complete is at its headquarters in Arlington, Va. Computerized data on patents filed since 1971 is available from a commercial service offered by Mead Data Central, of Dayton. Prices range from \$40 to \$70 per hour.

In a thoroughly conducted search,

the attorney should find the closest prior product or process before applying, so he or she can write a better, more persuasive and more specific application. An unexpired patent may turn up that would be infringed upon if you went ahead with your idea. Until that patent expired, you could not market your idea, unless you could get a license from the patent's owner.

**Y**our next step is to figure out whether your idea is practical and commercially feasible. If your invention is relevant to your industry, you probably know its value, but it is best to get a tough outside analysis. But consultation is costly, so carefully research the background of any consultant you hire.

Be careful also about turning to invention development companies, which customarily require upfront payments. Many such companies are fraudulent, says Michael Blummer, executive director of the American Patent Law Association. He advises going to the APLA's Inventor Consultation Service.

APLA, located near the Patent Office



*The wise inventor with a great idea should take the time to get a patent before trying to take an invention to the market.*

in Arlington, will match your need with the skills of a lawyer who practices in your area. It will send you the lawyer's name, address and phone number, and you can arrange an initial half-hour consultation for free. APLA also offers a list of reputable consultants and inventors' societies that may give you advice or do an initial screening.

You won't be able to solve your problems in only 30 minutes, but that should be long enough for your lawyer to get a basic understanding of the situation, give you basic advice and outline what additional services you require.

To file an application usually will cost \$1,500 to \$5,000 in attorney's fees, depending on how complicated the invention. You may pay another \$500 to \$2,000 once the application is filed, in order to respond to requests of the patent examiner. If you go to a management consulting firm for a commercial evaluation and preliminary marketing plans, the price will range from \$500 to \$3,000 and up.

If you are not treading on someone else's patents, and your invention seems to have enough commercial application to justify your trouble, you should immediately file a patent application. If another company is thinking of a similar product and sees the notice "patent pending," it will know your product may ultimately be protected by a patent, but it won't know the patent's scope, so it will not be able to "design around" your rights.

Your patent application fee will be \$340 (only \$170 if you are an independent operator, or your business has fewer than 500 employees). When the patent is issued you will pay another \$280 or \$560, again depending on firm size.

The application must include an abstract—a short paragraph that describes the invention. You then give the background of your invention, persuading the patent examiner that there really is a problem to be solved and that you are not just presenting another way of accomplishing the same old thing. The examiner will reject your patent application if he feels it does not represent a significant change of product or technique. Next, in the summary, you show how your invention solves the



PHOTO: T. MICHAEL KAZA

problem it was designed to solve.

You then write claims, as the Patent Office calls them, which describe the structure, rather than function, of your invention and cite specific ways the invention must be designed.

The patent examiner will take about a year to respond to an application and often will reject or object to overly broad claims. You have a chance to amend or justify those claims before the examiner makes a final decision.

Make sure to apply for a patent before you approach a manufacturer to discuss licensing arrangements, so your rights are protected. Some inventors who have assured their rights before offering to sell have met with great success.

At the Patent Office these days, they talk about Paul Ryan of Columbus, Ohio. He invented the Ryan Stormscope, a device that picks up electrical discharge "signals" from storms and maps them on a screen so an airplane pilot can locate the storms. The safety device originally went on the market in 1976, with patent pending, and Ryan's patent was issued in 1978. The scopes—

*Richard Levy, who has licensed inventions to toy companies, says research and persistence are crucial to success.*

initially made by Ryan himself—sold well, and 3M offered in 1980 to manufacture them. The company has since sold more than 8,000 units ranging in price from \$3,975 to \$12,150 each. Ryan profits from each sale.

Richard Levy, a Bethesda, Md., inventor, has licensed inventions and designs to Procter & Gamble, Mattel, Ideal, Parker Brothers, General Foods and King Seeley Thermos. His biggest success was the Starbird space ship he designed in 1978 for Milton Bradley. It was the first toy for the company, which until then made games only.

Before making a pitch for your invention, Levy advises, thoroughly research the company's existing products by reading trade journals and get the name of the director of research and development.

Levy says he has proved that a total stranger can make a cold call to a well-known corporation and have it commit millions to make his idea a reality.

"If you do your research first and are persistent," he says, "you have a good chance of selling your ideas, as long as you have good ones." ■



# Moving The Mountain Of Paper Work

By Mary-Margaret Wantuck

**H**ours: 330 million. Work days: 41.25 million. That is the Office of Management and Budget's estimate of how much time the 1981 Paperwork Reduction Act has saved small business in filling out federal forms.

According to government figures, by 1980, the paper work burden had grown so dramatically that businesses and individuals were expending 2 billion hours annually to satisfy Uncle Sam.

Small business people, however, feel differently about the impact of the Paperwork Reduction Act and a companion law, the Regulatory Flexibility Act, which required federal regulators to analyze the effect of regulations upon small business and, whenever possible, adopt less complex and cumbersome alternatives. They say that while both laws are laudable and innovative, not much has been done to enforce them.

"These laws are only working at 10 percent capacity, just like the human brain," says Anne Marie Boyden, president of et. al., Inc., a Salt Lake City advertising agency.

"It's like *Catch-22*," says Ray Morgan, owner of Morgan Sanitation, a waste collection company in Algona, Iowa. "If we get one regulation or one item of paper work reduced, some other agency will end up replacing it with two."

Morgan, who only has nine people on his payroll including himself and his wife, says he spends "four or five hours a week doing paper work and trying to keep up on regulations that come out from the Environmental Protection Agency." But it is a losing battle, he says.

He says that on numerous occasions, he has picked up materials that neither he nor the business he was collecting them from knew had been listed as hazardous. "It's just so time-consuming to try to keep up with all the regs on what materials are dangerous," he notes. "I don't have the time, and the small companies that I deal with don't either. What I hauled a year ago, I may not be able to haul today. But who can afford to subscribe to the *Federal Register* and then spend the time to go through it?"

The regulatory stream never ends, complains Marian Reeves, owner of

Ray Morgan (right), shown here with one of the seven non-family employees of his small waste collection firm, says the effort to keep up with new

federal regulations and handle the steady stream of paper work is a losing battle.



PHOTO: FRED LARSON

Gregg Insurance Company in Columbus, Ohio. She faults regulation and paper work for putting small operations like her agency on the "endangered species list," and predicts that unless something drastic is done, many small businesses face extinction within the next 10 or 15 years. "We're being regulated to death," she states flatly.

The telltale signs are already there, according to Reeves. "In the insurance industry, we're looking at small, independent agencies that are being bought up, merged or outright sold to large conglomerates because they can't afford the money that is going out to take care of increasing paper work when a balancing amount isn't coming in," she says. "In just the last year, we've lost about six smaller agencies in Columbus. They were being beaten into the ground and just got too tired to fight."

Contending with regulations and paper work has small business owners feeling as if they are "dealing with a quivering mass of Jell-O," notes Raymond Wittig, an attorney who also sits on the U.S. Chamber of Commerce Small Business Council.

"Every time they think they've landed a real body blow, nothing happens except that the mass quivers a bit. But the shape remains the same. From the little guy's perspective, this can be pretty frustrating."

Still, Wittig believes that small business people are ready to tackle the issue again at next year's White House Conference on Small Business. A major goal will be to get the Internal Revenue Service—a prime source of new regulations and paper work—covered under the Regulatory Flexibility and Paperwork Reduction acts. In fiscal 1985, the U.S. Treasury imposed nearly 700 million hours of paper work on the American public. This includes the time and effort expended by small business to deal with forms on withholding for employees' unemployment insurance contributions and workers' compensation payments. The IRS paper work burden alone increased about 14 million hours.

**T**ax simplification for small business is critical, says Ezra Koch, president of City Sanitary Service in McMinnville, Ore. "Every decision that a businessman makes today is based on what the tax implications will be," he says. "That's not how the free enterprise system was designed to operate. Originally, a man was to go out and match his wits and abilities with the public need and meet those demands and make a profit. Today, everything is tax-based."

Strong support for simplification of the tax system has been manifested at state meetings held thus far in prepara-



## Business people want the White House Small Business Conference to stem the tide of federal forms.

tion for the 1986 White House Conference. Participants in the state sessions are framing issues for the national meeting and selecting delegates to the national conclave.

The first state meeting, held in Richmond, Va., called for tax reform that would include simplicity, predictability and ease of application, along with fairness.

The ensuing Delaware and Alabama state sessions called for streamlining of the federal system for depositing payroll taxes, while both Alabama and Virginia favored repeal of the Davis-Bacon Act, which controls wage levels under federal contracts.

Interestingly enough, while small business is irked over what it still considers to be overregulation, it does not favor outright deregulation in all industries.

"Businesses can get too big, too monopolistic, with too few people owning them," says Ted Weill, president of Universal Wear Parts, a Tylertown, Miss., manufacturer of replacement parts for sawmill equipment. "Some regulation is necessary. But the regulation has to be balanced and sensible."

Trucking deregulation has affected Weill's business adversely. "We're getting more truck lines in here, but the rates keep going up. And new twists are being added. If a trucking company is transporting a single package to me from a supplier, I end up paying \$10 or \$15 more because it is hauling just one item."

Morgan also rues trucking deregulation. "I can't afford to have my supplies shipped in any more," he says. "It's more cost-effective for me to drive to my suppliers in my own vehicle. It's also faster. We're a small town—about 6,000 people. Before, federal rules required a truck to come into town every day. Now they come when they get a load, and that may be a day, a week, several weeks."

An important point that small business hopes to hammer home at the '86 conference is that federal officials should get out into the small business environment and see firsthand how this sector operates, instead of "sitting in a bureaucratic office far removed from reality," says Weill.

Morgan says he would settle for a

*Overregulation at times, too little regulation at others have hurt Universal Wear Parts, a maker of sawmill replacement equipment in*

*Mississippi. Trucking deregulation has meant that regular daily freight service has been replaced by more erratic deliveries.*



PHOTO: ALEXANDER MALLINO

hot line to call and "talk to somebody who has perhaps been in small business or is at least aware of the issues and ramifications surrounding them. Many times I get a secretary or someone who has no idea of what being a small business person means—of having to do the bookkeeping and working a trash collection route."

"There needs to be input from small business. But while it's necessary, it's not always practical the way things are set up now. For me to go to the Environmental Protection Agency's regional headquarters to sit in on a hearing on some proposed regulation would entail a four-to-five-hour trip one way."

**B**oyden advocates job trading to foster a better understanding of small business within the government. "Anybody who is in a supervisory position in a government agency should trade sides with a private-sector business person for a period of weeks or months," she suggests. "Then both can see how the other half lives. I've done it in my job. To get the feel of what my clients want, I've worked as a bank teller and loan officer and made sandwiches in a diner."

Small business people also support a uniform product liability standard instead of the hodgepodge of state laws that now exist. Legislation being pro-

posed in Congress would set a uniform standard and impose strict liability on suppliers where there are construction defects or a violation of an express warranty.

The legislation would require proof of manufacturers' negligence in the event of product design defects or failures to notify consumers of potential danger. Distributors would be strictly liable only when the manufacturer could not be sued, when the distributor sold the product under its own label or with no label, or when the distributor made an express warranty. The proposal would also place a 25-year limit (after delivery of goods) on suits against manufacturers of the goods.

However, some business people argue that the bill would raise workers' compensation costs for all small businesses. Employees injured by defective products in the workplace would have to exhaust all available compensation benefits before filing a product suit against a manufacturer.

Many small business owners are certain that something positive will emerge on regulation and paper work from next year's conference. Says Boyden: "It's like the Geneva arms talks. Just the fact that all these small business owners, members of Congress and administration people will be talking together will be a plus." ■



# Innovators

By Sharon Nelton

## Magic Word



ILLUSTRATIONS: JACK LEFROWITZ

It is impossible to call someone "fat" with kindness. So the clients of Women at Large are called "fluffy ladies."

The Yakima, Wash., fitness center is aimed at women who think they will scream if they walk into one more exercise program led by some skinny someone who wears size 6. Tailor-made for overweight women, it was founded by two fluffies, Sharon McConnell and Sharlyne Powell.

They started it, says Powell, "because we had no place to go where we could exercise without embarrassment, and where we felt any instructors had compassion for our problem."

Many exercise and weight-loss organizations, she says, do not want large women because they are considered a health risk and because other group members do not like looking at them exercise.

McConnell and Powell, who are now beginning to franchise their business, learned the hard way that overweight women don't want svelte instructors. They started Women at Large in August, 1983. They had hired a thin teacher, but soon realized they would have to find someone who was overweight and had an understanding of the problems experienced by the people she was working with.

Unable to locate such an instructor, they closed shop in November, studied

everything they could find on exercise and fitness, and became instructors themselves. They reopened two months later.

Women at Large also carries its own line of leotards, tights and exercise clothing.

Says one happy client:

"I feel that Women at Large is the best thing to happen to me since food."

## Quote Worth Noting

"I look at lack of public trust as the gravest external problem facing American business today," says Robert V. Krikorian, who just retired from the chairmanship of Rexnord. "Over the last few decades, the flood of government regulation and legislation has resulted from the public perception that they needed to be protected from improper behavior of business people. As long as the American people cling to the belief that they need protection, oppressive legislation and regulation will continue."

He says: "Ethical conduct—and the feeling of trust that results—is the basis of successful business."

*Providing personalized treatment can make a big difference, whether it's in exercise classes or at a hotel.*

## Break The Tie That Binds

The folks who run Epoch Group, Inc., say that if you "create your own reality," you may be much more successful in business than you ever thought you could be.

Michael D. Topf, president of the management consulting firm, based in Radnor, Pa., once challenged the head of a formal wear retail chain who said that he had had a great spring season but that now the company was "gearing down" for the summer.

"Are you willing to create a new reality—that summertime is a busy season?" Topf asked him. Sure, the retailer replied.

The firm and its employees had been operating under the mindset that spring, with its proms and weddings, was the busy season and that summer was slow, says Topf. So when summer came, they would relax. And sure enough, summer turned out to be slow.

Topf got the retailer to make a declaration to his people: "We're going to have the busiest summer we've ever had." At first, there was disbelief, but the retailer, with Epoch's support, was insistent that it was going to be a busy season. So his marketing and promotion people began to come up with some strategies, pushing more formal weddings in the summer, promoting formal parties, and looking at other items, such as jewelry, that the stores could sell.

And of course you know the ending to the story. The chain had the busiest summer of all its 50 years.

Organizations can wear blinders, just like people, says Topf. If the leader of a company says business is going to be limited because of a season or a downturn, or he takes the attitude that "this is the way we've always done things," it's likely his people won't even look for new opportunities that would produce positive bottom-line results.

But if a leader creates a different reality, opening people up to the idea that something can be done, they get excited. And, says Topf, "They start finding new ways to do things."



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## Transplanting Traditions

In 1972, says G. Peter Bidstrup, only 1 percent of the guests at his Doubletree hotel chain were women. Now women business travelers comprise more than 33 percent of the company's clientele, and Bidstrup, founder and chairman of the luxury chain, estimates that figure will climb to 40 percent by 1990.

The trend has affected design and marketing decisions surrounding Bidstrup's newest project, a spinoff mid-priced chain, Compri Hotel Systems, Inc. The first Compri opened in Lakewood, Colo., in August and when next fall rolls around, Bidstrup expects 30 of these "intimate" hostels to be open or under construction.

Bidstrup says research for the new chain showed women were looking for two major things in a hotel: security and the opportunity to socialize in a non-threatening environment.

To meet the first need, Compri hotels are designed as mid-rise, compact buildings instead of being spread over several acres. They have limited access, with only one entrance for guests, and card keys instead of standard room keys are used. The card keys also activate elevators and are changed regularly.

To satisfy women's desire for a non-threatening social environment (and to keep costs down), the new chain eliminates public restaurants and lounges and has introduced, instead, a private club, limited to hotel guests and their invited guests. The club offers reading materials, a bar, wide-screen television and small rooms for casual business meetings—providing a setting that women find preferable to a hotel room or bar.

Every evening, the club hosts a "manager's" cocktail reception, with sandwiches and salads. The club includes a kitchen, so if the munchies strike after 9 p.m. "and you need some emergency food," says Bidstrup, "just go in and make yourself a peanut butter and jelly sandwich. Grab some fruit. It's something to get you by."

Although Compri guests are charged roughly half the cost of a luxury hotel stay, Bidstrup says he intends to maintain the same standards as those at Doubletree. Customers are content, he says, when a hotel shows them it really cares. Meeting that goal, Compri says, should include such things as personal



recognition, not making guests stand in line and responsiveness.

Of those elements, says Bidstrup, "The one we pay most attention to is guest recognition. If you call somebody by name, they're delighted."

Just how do you get hotel employees to call the guests by name? By using the STAR system, Bidstrup answers. That stands for "Steps to Accentuate Recognition," an employee memory-training program.

When a bellman picks up someone's luggage, he has learned to look for the nametag and to address the guest by name. The maid has a printout showing

her the name of the guest in each of her rooms. "So when she sees Mr. Jones walking out of Room 232, she can say, 'Good morning, Mr. Jones,'" says Bidstrup. He says that sometimes pictures of very frequent guests are posted on bulletin boards to help employees learn to recognize them.

Crucial to the program, however, is peer pressure. If you see an employee with a star on his nametag, that means that at least once each day, one of his peers has confirmed hearing him call a guest by name, Bidstrup says. "If you don't have a star, it's almost like you're an outcast."

## What's Your Excuse?

Excuses may be standing in the way of your company's ability to attain excellence. So warns Mark Silber, professor of organizational psychology at United States International University in San Diego.

Tradition-bound bosses use excuses to maintain conformity and stifle new ideas, he says. They focus on what could go wrong rather than on successful outcomes and on "doing everything the right way" instead of "achieving the right results."

Cost to the company? The loss of innovative but disenfranchised employees.

But employees make excuses, too, usually to avoid blame, says Silber.

They may trump up reasons to explain lack of performance, cover up mistakes and shortcomings and stay in political favor.

Some familiar excuses:

- I would have, but no one else would cooperate.
- That's not our job. We don't have the authority.
- Let's form a committee to research it further and discuss it again in six months.
- That's against procedure.
- Someone else messed up.

When you hear comments like these, suggests Silber, it's time to confront the excuse makers.



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## TECHNOLOGY

# High Tech Help At Low Cost

By Robert A. Hamilton

**Y**ou own a research-driven small business and discover that an organization with enormous resources will tell you what kind of research has been and is being done in areas pertinent to your firm. The organization may also supply you with certain types of computer programming and, in some cases, team up with you on new research.

All for fees that are comparatively low or even for no fees at all.

Do you seek its help?

Thousands of small firms have, with spectacular results.

Lasermetrics, an Englewood, N.J., firm whose clients include International Business Machines Corporation, AT&T and General Motors, obtained data on lasers three years ago that told it not only what kind of research had been done, but—more important for its purposes—what had not. The company found holes in the research that led it to develop a high-power, high-repetition laser that should bring in 20 sales this year, at \$18,000 to \$100,000 each.

National Perforating Company, of Clinton, Mass., needed information on safe loading limits for metal screening. A consultant said a study would cost \$15,000. National Perforating got the information for less than \$2,000.

Cascade Waterworks Manufacturing Company, of Tukwila, Wash., was given information from the same source on engineering, metallurgy, plastics and hydraulics. The company was able to develop a coupling for high pressure water lines that accounted for a \$500,000 sales increase in the first year.

Dramatically different problems, yet the information for solutions all came from one source: the National Aeronautics and Space Administration.

NASA is eager to put its research and development at the disposal of U.S. companies.

Those that know about this opportunity take advantage of it whenever possible. Robert Goldstein, president of Lasermetrics, says NASA "saved us a lot of time and money" in developing the company's new laser.

*Robert Goldstein of Lasermetrics says that NASA saved his firm a lot of time and money in developing a new laser.*



PHOTO: ELIZABETH MARSHALL—GAMMA LIAISON

Best of all, in this case the assistance was free, through a program cosponsored by NASA and the U.S. Small Business Administration.

When Congress established NASA in 1958, it ordered that unclassified information to come out of the space program be made available for public use. To comply, NASA established a technology transfer system.

The technology is not limited to aeronautics. NASA has been a pioneer in electronics, engineering and other fields. Says Roy Bivens, director of seven industrial application centers that

*NASA is eager to put its research and development at the disposal of U.S. business.*

NASA operates: "We can supply information you wouldn't otherwise have access to."

The centers, the busiest part of the technology transfer system, are massive computer libraries housing all of NASA's knowledge on magnetic tapes. When a request comes in, NASA searches those tapes for answers to industrial problems.

Daniel U. Wilde, director of the New England Research Application Center, or NERAC, the most active application center, says it has not only NASA's database, but 105 others on magnetic tape. "With that many sources," Wilde notes, "it's hard to find a question that we don't have anything on." The center each year conducts 100,000 searches of existing files and 1 million searches of work in progress.

NERAC found an Ohio truck company a way to protect its truck and cab bodies from corrosion, saving the company \$750,000 the first year. An aircraft parts company that used NERAC's research services developed a product line that had a \$3.1 million order backlog within a year.

The cost of having an information search done varies among the industrial application centers. NERAC, the most expensive, charges \$4,600 for a year's worth of unlimited use, although NERAC and the Western Research Application Center also operate under an SBA program to provide free information searches to small businesses on a first-come, first-served basis. Other centers charge a nominal per-search fee—as low as \$100.

A second arm of NASA's technology transfer system is the Computer Software Management and Information Center, or COSMIC. More than 1,400 programs developed by NASA engineers are on file at this software super-market, most of them available to companies for less than \$1,000 each.

NASA's applications engineering team, a third part of the technology transfer system, works on selected engineering projects with private industry, free of charge.

Says NERAC's Wilde: "Nobody should ever kid themselves that there isn't a better way to do things. Some companies just haven't found the way—yet. We help them find it." ■

## To Learn More . . .

The National Aeronautics and Space Administration's technology transfer system has offices in many states.

For information, write or call the Director of Technology Utilization and Industry Affairs Division, NASA Scientific and Technical Information Facility, P.O. Box 8757, Baltimore/Washington International Airport, Md., 21240, (301) 859-5300, Ext. 210.

*Robert A. Hamilton is business editor of the Willimantic, Conn., Chronicle and a frequent contributor of business articles to other publications.*



# What Will You Do When Your Personal Assets Are Seized to Satisfy A Judgement Against Your Corporation?

All your many tax benefits of owning a corporation could be wiped out overnight. How? The I.R.S. could visit you and claim you have not kept proper corporate minutes. You could lose the very tax benefits to which the law entitles you.

Banks, insurance companies and various state and federal agencies, besides the I.R.S., all require notarized authorizations to grant loans, buy property and equipment, enter into leases and even to sell assets. And other problems can be equally devastating. The reason? The owner didn't document important transactions. The small business owner simply has to "Get It In Writing".

Here are some recent "horror stories" direct from actual court cases.

Joseph P. obtained a loan from his corporation without the proper loan documents and corporate minutes. As a result, the court required him to pay additional taxes of \$27,111.60. He narrowly escaped a penalty of \$13,555.80.

B.W.C., Inc. was forced to pay \$106,358.61 of accumulated earnings tax because its corporate minutes were incomplete. They expressed "no specific, definite, or feasible plans" to justify accumulating earnings, according to the court.

Keeping records has always been a bother, and an expensive one, especially for small companies. Most entrepreneurs do not like to spend time keeping records. Probably because no one ever became rich by keeping records. And in a small, one-person business, it seems downright silly to keep records of stockholder meetings and board of directors meetings... keeping minutes... taking votes... adopting resolutions... isn't it all just a waste of time?

Not if you ask any of the thousands of entrepreneurs who have lost fortunes because they failed to keep records. You should look at corporate record keeping chores this way: *It's part of the price you pay to get the tax benefits and personal protection from having a corporation.*

A corporation does not exist except on paper, through its charter, by-laws, stock certificates, resolutions, etc. Anything you do as an officer or director has to be duly authorized and evidenced by a resolution of the stockholders or the board, or by both in some cases. It makes no difference if there is only one stockholder or one million stockholders. The rules are basically the same.

You can hire a lawyer, like the big companies do, and pay \$100 or more just to prepare one form. But you may need, at minimum, a dozen or more documents to keep your corporation alive and functioning for just one year. This type of work is the bread and butter for many corporation lawyers. Most of the work can be done by their secretaries, yet they will charge you enormous sums because they know how important the forms are to you and your business. Lawyers know

that the I.R.S. will insist that you have the corporate records to prove that you are entitled to all the tax breaks from having a corporation.

There is now a way for you to solve your corporate recordkeeping problems. Without a lawyer, without paying big fees, and without spending a lot of time. It is truly **The Complete Book of Corporate Forms**. It was prepared by Ted Nicholas, author of the best-seller, *How To Form Your Own Corporation Without A Lawyer For Under \$50*. This book has become the largest single source of new corporations in America. His book has revolutionized the business of forming new corporations by making the process simple, easy and inexpensive.

But forming a corporation is only the first step toward building "the ultimate tax shelter." Through carelessness or neglect, many people are denied their rightful benefits from owning their own corporation. Ted Nicholas saw that many business owners needed more help after they incorporated. They didn't know how to follow through, how to turn their corporation into the ultimate tax shelter.

And so, he prepared **The Complete Book of Corporate Forms**. Virtually all the forms you will ever need are all ready for you. Everything is simplified. Either you or your secretary can complete any form in minutes. All you do is fill in a few blanks and insert the completed form in your record book. When you own this book, you are granted permission to reproduce every form. If you are behind on keeping good corporate records, now you can catch up in no time. Just complete a few blanks for the things you've already done in the company. It's legal and it works. Best of all, the price is less than you would pay a lawyer for one hour of counseling.

Here is just a sampling of what you'll receive:

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Minutes of Directors Meetings

Minutes of Special Meetings

(Any of these can be used if you are the only stockholder and director.)

Amendments to Articles of Incorporation

Amendments to By-Laws

Changes in Membership of Board

You will also receive all the stockholder and directors resolutions you will need to take any major business action, including:

- Negotiation of contracts • Authorizing loans to corporation • Approval of corporate loans to you • Designation of purchasing agent (some suppliers may want to know who is authorized to buy from them) • Setting your salary • Directors fees • Authorizing your expense account • Mergers • Sale of corporate assets • Dissolution • Bankruptcy • Declaring dividends • Appointment of attorney or accountant

Plus, you'll receive the forms needed to authorize any of these tax-saving fringe benefits:

- Pensions or profit-sharing plans • Medical and dental reimbursement plans • Sick pay plans • Split dollar life insurance • Educational loan program • Scholarship aid program • Stock options • Group life insurance • Financial counseling plan • Group legal services • Christmas bonus, special bonuses

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# High Tech Power For Small Firms

By Harry Bacas

**M**ichael Fallon was convinced he "had to get a better handle" on which items were selling well at his paint and ceramics supply store and which were not. "We were selling stuff we didn't even know about," he says. He decided to computerize.

Fallon is manager of Technique Ceramics, a family-owned business in Scottsdale, Ariz. Eight months ago he bought a hard disk computer for the checkout counter and another for the office upstairs, plus three printers, from Radio Shack. He also bought a set of software programs called "Store Minder" from XtraSoft in Santa Clara, Calif. Total cost: \$11,000.

Now, Fallon says, he can track sales of every one of the 8,500 items the store stocks and tell at once when something starts to move (like the green glaze that became a best-seller after the movie "E.T." played in town).

"Despite a tight cash flow, we can handle more inventory with less cash," Fallon says. His sales last year were \$350,000.

Fallon is one of many independent retailers across the country who have found that sophisticated management systems once thought the exclusive province of the big chains are becoming available to them.

Some exotic retail technologies—like electronic-order kiosks in malls and home shopping by video—have yet to make a significant impact on the marketplace. But other technologies, like Technique Ceramics' new system for tracking sales and inventory, are changing the way thousands of merchants do business.

"We're in the early stages of a growth cycle involving a tremendous number of small retail organizations," says Vernon W. Yates, vice president and general manager of NCR Corporation's personal computer division.

Adds Richard F. Outcault, president of Retail Management Aids, Inc., a consulting and software firm in Seattle: "There are 1,700,000 independent retailers in this country. Overall, they represent the highest failure rate in American society. Helping them survive and succeed is very exciting."

Outcault knows about failure and survival. After 12 years with Marshall

*Richard F. Outcault produces strategic planning software for independent retailers.*



PHOTO: DOUG WILSON—BLACK STAR

Field department stores as a buyer and manager, he went into business for himself in 1968. He bought a men's apparel store and soon opened two more.

But the next year, the Boeing Company, Seattle's largest employer, began laying off two thirds of its work force. Retailers lost customers and business.

"I saved the stores," Outcault says, "because I had been trained to do financial planning and could make the necessary decisions in time."

Later Outcault started doing consulting and lecturing (including seminars for IBM). He put a financial planning program into a software package and called it "STRATA:G". It goes into worldwide distribution through NCR this fall.

"It used to be that a retailer who couldn't afford a big staff of accountants, meaning 96 percent of retailers, could never get financial projections," says Outcault. "Making decisions only on past figures is like driving a car with your eyes on the rearview mirror. Using STRATA:G, a retailer can either adapt to change or get out before he loses his shirt."

*Business hardware and software that once were restricted to big-budget operations are now within the means of small retailers.*

Herbert J. Kleinberger, director of retail systems consulting for Price Waterhouse, says the development of less expensive computers and more versatile software has now made automation, particularly inventory management, available for businesses doing as little as \$200,000 a year in sales.

Sharon Thornton is president of XtraSoft, whose "Sales Minder," "Stock Minder" and "Mail Minder" software is sold both directly and under other distributors' names.

She and her husband, Adrian, both of whom once worked for Sears, pioneered development of systems that use a personal computer atop a cash drawer as a cheaper, more flexible substitute for a cash register.

"The lower priced hardware lets a small business have the management abilities of a larger firm," she says. "The point of sale is the entry level of all the information."

"Some business people stop at the cash register and don't understand that this, the point of sale, is the vehicle for collecting the data to manage the business."

When the checkout clerk punches in a product code, the software directs the computer to look up and display the item price, description and stock availability. Everything is recorded for later analysis.

**S**ophisticated electronic cash registers that do the same thing can cost \$4,000 to \$15,000 apiece and must be connected to a host computer that can bring the system's cost to as much as \$100,000. But a small business can get a personal computer with a hard memory disk, a cash drawer, a ticket printer and software for less than \$10,000.

Even some chains use personal computers instead of cash registers. But others say they need the greater security of data access they get from electronic cash registers or specialized point-of-sale terminals.

Stuart Gollin, director of retail consulting for Laventhol & Horwath, a national accounting firm, says a retailer's rule of thumb should be that if he spends more than half an hour or so a day on sales reports, he should get a PC just to control inventory and plan buy-



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### About the Author . . .

Howard Raiffa has been at  
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School of Business Admin-  
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As one of the outstanding  
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scrapped plans to undertake an expensive  
market test—when decision analysis indi-  
cated high expected profitability. The switch  
was successful.

**General Electric** decided to raise prices,  
rather than increasing manufacturing capa-  
city for a mature industrial product. As part

of the strategy, R&D expenditures were in-  
creased twentyfold, and the decision re-  
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## TECHNOLOGY

## High Tech Power For Small Firms

*J.C. Penney—and small retailers, too—now base management decisions on data gathered at the point of sale.*



PHOTO: T. MICHAEL KEZA

ing. "You can add functions as you need them," Gollin says. "As soon as you have more than one store, you should think of putting in point-of-sale terminals. First, figure out your needs, then talk to other retailers about their systems."

**A**t the same time that many small businesses are getting their first taste of automation, mass merchandisers are moving further ahead into technological innovation.

For example, K Mart Corporation, which has 50,000 registers in 2,000 stores, recently launched a \$300 million program to replace its old-fashioned registers with machines that will scan bar codes on merchandise, print descriptions and prices, keep tabs on inventory and even automatically reorder some items.

K Mart's move is seen as a powerful push toward universal product codes, because any vendor that wants K Mart's business will have to adopt coding.

Half the new K Mart registers will be at checkout counters where embedded laser scanners will read the codes as clerks slide the items over them. The other registers will be in specialty departments like watches or cameras. There, clerks will use pistol-grip scanners.

Up to now, K Mart clerks have had to enter prices manually and tear off merchandise stubs for record-keeping. And managers get only departmental information on sales.

"We know in detail what's ordered by each store but not what's sold," says David M. Carlson, K Mart vice president for electronic merchandising systems. He notes that automation improves customer service, reduces

inventory and frees space for other items.

"Mass merchandising has roots in both department stores and supermarkets," says Carlson, who learned his retailing in a Detroit supermarket chain during the "supermarket revolution" of 1970-78.

Supermarkets in those days forged ahead of other retailers in automating operations. They led the way in adopting product scanning to give instant prices and descriptions and in sophisticated techniques of sales analysis and shelf planning.

Giant Food, a 134-store supermarket chain in Maryland, Virginia and the District of Columbia, installed the industry's first computer-assisted checkouts in 1975 and converted all its checkouts before 1979.

Recently Giant put a second computer system in each store to monitor energy systems and employee sign-in and sign-out and to provide electronic mail between stores and headquarters.

A computer also gives pharmacies in 76 of the Giant supermarkets a profile on each of their customers. The system prevents unintended drug interactions in cases where patients get prescriptions independently from different doctors.

Giant already has automatic teller machines and is ready to go to electronic funds transfer whenever consumer acceptance rises sufficiently.

The chain's enormous warehouses deliver supplies by gravity flow along ramps through computer-controlled gates onto carts for loading into trucks.

In department stores, a leader of innovation has been J.C. Penney. "We like to think we're on the cutting edge," says Robert Capone, Penney's director of systems and data processing.

Penney's 40,000 cash registers are

linked by a national network that captures sales data for central analysis. Registers also are on-line with Visa, American Express and MasterCard for direct credit authorization.

"We maintain a perpetual inventory on every item in every store," says Capone. "We know when an item is a fast seller and when one is slow. For restocking, instead of printing orders and mailing them to vendors, we send them directly from a store terminal without going through New York, or it's done automatically based on reorder points and quantities." Half of Penney's \$12 billion annual sales are now based on such automatic ordering from 281 suppliers.

"If you have a shorter lead time to replenish, you can cut down on the amount you need in stock," explains Capone, making the same point Michael Fallon makes about restocking his ceramics supply store in Arizona.

Other technologies are being tried experimentally in stores. Retailers—and banks—love the idea of the debit card, which directly debits a customer's bank account and credits the merchant's account. It improves productivity at each end because the transaction requires less processing.

**B**ut so far, customer acceptance is the missing ingredient. Customers have not indicated they want to give up the "float" they enjoy with a check or credit card, and merchants won't move until customers want the system.

"Unless you can look yourself in the eye and say you're excited over debit cards, it won't happen," says K Mart's Carlson.

Other technology tryouts include an experiment with touch-screen sales terminals at Bloomingdale's high-style department store in New York. A clerk controls the device by touching a finger to the screen, eliminating dozens of keystrokes.

Electronic ordering kiosks in stores and in mall walkways are drawing much public attention but not a lot of sales.

Laser scanners are being adopted widely to replace infrared scanners. They cost more but yield more accurate readings.

L.S. Ayers department store in Indianapolis has a fitting room system that allows a customer to see herself as she would look in dozens of different ensembles without putting them on.

Using new software, stores' depart-



ment managers are starting to correlate their inventory replenishment decisions (a unit calculation) with their "open to buy" situations (a dollar calculation).

Retailers are installing programs that use the data from point-of-sale scanning to reallocate shelf space to maximize returns. They also are using their newly captured sales data to figure DPP—direct product profitability—for individual items by using formulas that include all the indirect handling costs of each item.

What does a manager do if he finds that an item that seems to make money is actually losing?

"Well, he may have to keep it as a customer service, but he doesn't have to advertise it," says Terrence Foran, Touche Ross' national director of retail consulting. Foran adds:

"All retailers are redoing their merchandising systems. Our consulting business is very busy; we can barely keep up. The cost of systems has dropped to where a retailer doing \$50 million or more annually is in a position to have absolutely state-of-the-art technology for \$500,000 to \$700,000.

"And there are more and more applications for microcomputers. I have a client who runs a management package on a Data General briefcase portable. Even the guy in the golf pro shop is putting customer information into a small computer. He'll send you a personal letter offering you a bargain in leftover sweaters of your size in the pattern he knows you like."

**A**ll this retail technology is not for everybody. Russ Solomon, president of Tower Records, a 37-store chain headquartered in Sacramento, Calif., says: "The record business has some peculiarities; you buy at one price and sell at several prices, and you can return up to 20 percent of unsold stock.

"For each sale we collect data on gross profit and on the general category of the item, but that's all. I don't think I want to know anything else.

"We tried to read the cash registers by wire. It took too long. So we went back to paper reports.

"Each store does its own buying and inventory management. The managers know what they need better than we do here."

In Scottsdale, Ariz., meanwhile, Michael Fallon's mother, Michaela Fallon, who owns Technique Ceramics, says she loves the store's new computerized

point-of-sale data entry system. "It used to take me 3½ days just to inventory the paint, brushes and tools," she says, "and by then the information was outdated. Now I can do it in 20 minutes."

The computer also calculates taxes for her. So when she prepares the daily work sheet, she no longer has to isolate the service charges (nontaxable) the

store gets for kiln-firing customers' unbaked greenware.

Sharon Thornton of XtraSoft, which developed the system Fallon and her son are using, says sales like that have given her software company a record year. She believes continuing automation of small retailers "will see astronomical growth through 1990." ■

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# The Electronic Workplace

By Harry Bacas

## Wearing A Heart Monitor On Your Sleeve

A portable cardiac early warning system that could prevent many fatal heart attacks is being marketed by Q-Med, Inc., of Clark, N.J.

The device, sized to slip in a pocket or wear on a belt like a Walkman stereo, is only one of a number of innovative medical products recently introduced.

At a glance, the device may seem like a Holter heart monitor, which records for a day or two and then must be read by a physician in his office. But the new device evaluates cardiac behavior continuously, checks it against a complex set of American Heart Association norms and provides information directly to the wearer.

Q-Med believes its market is the 5 million existing coronary artery patients and the half million new patients that are diagnosed each year. Coronary artery disease is responsible for more

than 1.5 million heart attacks each year.

Another new device has been introduced by Abbott Laboratories—a desk-top blood analyzer for physicians to use in their offices. The analyzer provides test results in 8 minutes, allowing doctors to prescribe while the patient is still in the office.

The automated device, about the size of a microwave oven, spins a drop of blood down to plasma, mixes it with premeasured chemicals and then calculates results. Chemical packs for the eight most common tests are available now, and others will be added soon.

Meanwhile, the Liposome Company, of Princeton, N.J., which manufactures microscopic spheres that deliver drugs to specific points in the body, has been granted the first patent in its field.

Liposomes, made from natural biodegradable materials, can be made to en-

trap enzymes or therapeutic agents and release them at a particular organ. Although they were discovered in the 1960s, the invention is said to make them less costly and more stable.

And two companies have announced new instruments for advanced surgical techniques.

Concept, of Clearwater, Fla., is producing an electrosurgical pencil for arthroscopic procedures in the knee. It uses a high frequency radio current to cut damaged cartilage or ligaments smoothly and to stop bleeding.

EndoTherapeutics, of Redwood City, Calif., is making and marketing instruments for endoscopic surgery, in which tiny incisions gain access into a patient. One instrument is a stainless steel trocar that has a disposable and therefore always sharp blade and a safety device to shield the cutting tip after the abdominal wall is penetrated.

The surgeon uses a metal tube to examine organs and conduct procedures and then sews up the incision with a single stitch.

## Technology Notes

*The unique retinal pattern of a person's eyes can be used as an identity check in high-security situations.*

□ EyeDentify, Inc., of Beaverton, Ore., is producing state of the art identification machines that peer into people's eyeballs.

The devices are used to control access to high-security places by scanning the eye's retinal pattern. The machine takes 30 seconds the first time a person uses it. Thereafter, each check lasts only 2 seconds.

EyeDentify claims the chance of a false acceptance is one in a million and points out that the "password" can never be forgotten, stolen or forged.

□ NETI Technologies, Inc., Vancouver, B.C., is promoting its Electronic Forum, which lets a group of people anywhere in the world use computers to hold a conference without participants having to be at their computers at the same time. The service can provide faster consideration of legal docu-

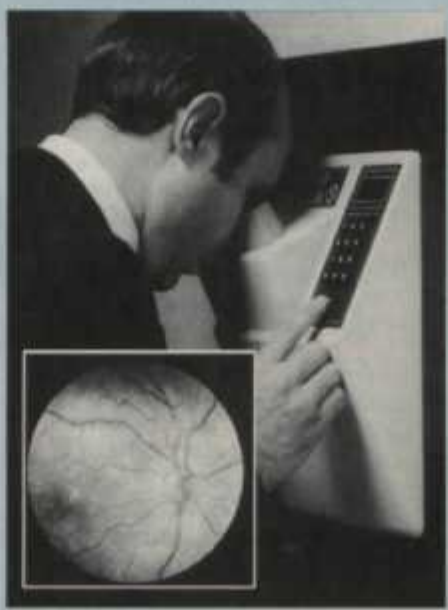


PHOTO: JESSE MACKENZIE

ments or corporate papers than facsimile or overnight delivery can, and it records all comments. AT&T will market the software, and General Electric Company's Information Services will add the service to its network.

□ Word Perfect, a top-selling professional word processor, has been adapted to run on Apple II and Apricot personal computers. Heretofore it was available only for IBM.

□ Ashton-Tate has released a version of its popular dBase III database management software that is designed to allow remarketers and developers to incorporate it in their special application programs.

□ A Frost & Sullivan report says that the office automation software market will reach \$27 billion in 1990, and more than \$14 billion of that will be for personal computer software.



# COAL MINERS' DAUGHTERS

When the concept of starting a computer service bureau in southeastern Kentucky was first discussed, the founders were told they could never get it off the ground. Kentucky is coal country, they were told. It didn't fit the image. Some even suggested that the area couldn't produce the labor force with the skills this sophisticated business would require.

The founders, however, did not listen to the skeptics. They even had the foresight to name the company ... Appalachian Computer Services ... after the land that was to help make the company a success.

And success is what Appalachian Computer Services is all about. Headquartered in London, Kentucky, Appalachian Computer Services has grown to include four other Kentucky offices as well as offices around the country. Its customer base has doubled within the last five years, tripling gross sales and resulting in an employee increase from 200 to well over 1,000 skilled people.

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# Making It

## New Heat In The Admag Biz

"They're a pesky competitor," says *Advertising Age* President Rance Crain of the breezy upstart, *Adweek*, that is challenging his publication's position as the leading news journal serving the advertising trade.

"They're interesting and feisty, and they have done a good marketing job against us," Crain says.

Two blocks away in another midtown Manhattan office, *Adweek* President John C. Thomas, Jr., says his ultimate goal "is to be No. 1, and I think we've made great strides."

Thomas adds, "I don't believe in miracles. We've only been in this competition since 1981. *Ad Age* has been around for more than 50 years, and they've garnered a wonderful reputation."

"But I would like eventually to be in a position where people in advertising, when they think of a publication, will think first of us. Putting out a first-class product for our customers is more important to us than having the biggest sales."

The sales go like this: *Ad Age's* circulation is 88,000, *Adweek's* is 62,000; *Ad Age* revenues were \$30 million last year against *Adweek's* \$18 million.

But *Ad Age* lost 70 pages of advertising in the first six months this year while *Adweek* gained 260. Recently Jack Thomas reported gleefully to his staff that their ads were running at 69 percent of their rival's, compared with 52 percent a year ago.

*Adweek* also has become the talk of the industry for its lavish use of color printing, its introduction of a gossip column and a comic strip, its controversial but avidly read lists of "the 10 worst clients" or "the 10 hottest agencies" and its series of award-winning promotional ads.

It is owned and run by three veterans of consumer magazines: Thomas, another experienced salesman named W. Pendleton Tudor and Kenneth Fadner, a financial expert.

Thomas, now 58, started selling ads for *McCall's*, eventually becoming U.S.

The creators of a "feisty" force in the advertising trade (from left): Kenneth Fadner, John C. Thomas and W.

Pendleton Tudor. Their upstart journal, *Adweek*, is going great guns.



PHOTO: WAYNE SORCE

sales director of *Time* and then publisher of *New York* magazine. He met Tudor, two years younger, when Tudor was selling ads for *Life*. He worked with Fadner, 17 years his junior, on *New York*, where Fadner was financial vice president.

The three jumped into magazine ownership in June, 1978, when they took over three regional advertising publications, serving California, the Midwest

and New York, from entrepreneur Ed Cooper.

"We were lucky," says Thomas. "We didn't have much money, but we found a guy [Cooper] in poor health who wanted to sell. Cooper agreed to a seven-year payoff, and we paid him long before that."

The partners had a silent backer whom they eventually bought out.

"It's a wonderful partnership," says



*Entrepreneurial success in publishing, electric lights, computer technology, shower curtains and exercise equipment.*

## A Bright Idea That Makes Waves

Thomas. "We try to run everything on a collegial basis. We have yet to take the first vote on anything."

The partners later bought two more publications, one in the Southeast (Atlanta) and one in the Southwest (Dallas).

In 1981 they adopted the name *Adweek* and converted their publications into a national magazine with regional editions.

They hired Clay Felker, former editor of the *New York Herald Tribune Magazine*, *New York* and *Esquire*, first as consultant and then as editor in chief.

"You hire good people and give them their head," says Thomas. The editorial budget has tripled in three years.

*Adweek's* regional editions (there are six now) are the key to the publication's strategy, says Thomas, "because advertising is a highly regional business; people want to read about other people and sales in their own area."

Regional advertising averages 35 percent of the magazine's volume. The proportion is highest on the West Coast.

Thomas thinks the regional emphasis is only part of the difference between magazine-sized *Adweek* and tabloid-sized *Ad Age*.

"Look at their masthead," he says. "They call themselves 'The International Newspaper of Marketing.' Well, we're not international, we are not a newspaper and we focus on advertising rather than marketing."

The partners' business revenues last year totaled \$21 million (including \$3 million from ventures other than *Adweek*). That was a 700 percent increase over 1978.

Jack Thomas' advice to anyone trying to do what he and his partners have accomplished is this:

"First, have a vision of what your company can do.

"Then, have the money to sustain the company if hard times come."

The partners have the former even though they don't anticipate the latter.

—Harry Bacas

Q: How many people does it take to change a Diolight light bulb?

A: One every 50 years.

That may sound like a variation on a tired joke, but it's true, says Kevin Keating, founder and president of Diolight Technology, Inc., of Pontiac, Mich.

Keating has developed a bulb designed to last five decades. Some Diolight bulbs have been burning for 30,000 hours now and show no signs of

*Kevin Keating hopes for 2 percent of the light bulb market with his Diolight, which he says will last for half a century.*



PHOTO: JIMMIE CLARK

dimming, he says, and he expects them to burn for a total of 80,000 hours—about 80 times longer than a conventional bulb.

Diolight sold an average of 1,000 bulbs a week last year. Now sales are 25,000 a week. This year's dollar total is projected to top \$10 million.

The concept behind the bulb is simple, says Keating, 33, a former salesman who spent three years developing

it with mechanical engineer Russell Monahan, of Ann Arbor, Mich. Unlike most long-life bulbs—which rely simply on thicker filaments—the Diolight incorporates a diode, a component that changes electricity flowing into the bulb from alternating to direct current.

Alternating current—switching back and forth 60 times a second—wears down the filament. Direct current creates less wear and tear.

Keating raised \$180,000 from friends and family members to start the company in 1983.

Diolight, which has 12 full-time employees in Michigan, manufactures its bulbs in Taiwan. It relies on about 100 independent distributors across the country, many of whom also represent the three largest light bulb manufacturers, General Electric, Sylvania and Westinghouse.

Keating's bulbs sell for about seven times the cost of a conventional bulb, but that cost is quickly made up, he says, when replacement and labor costs are considered.

"In a factory or hospital, where there are thousands of bulbs, they're burning out all the time," he says. "It takes a maintenance worker, making \$12 an hour, about 15 minutes to replace each bulb. The savings can be astronomical."

Every time the company sells another bulb it has, in theory, lost a customer for the next five decades. That doesn't bother Keating, who says, "The more we sell, the more opportunities we create. And as we create new technology, we'll have more and better products."

Keating entertains no thoughts of putting the country's major light bulb manufacturers out of business. His goal is to have 2 percent of the market—about 20 million bulbs—by 1990.

"When Edison invented the light bulb, people told him he would put the gas companies out of business," Keating says. "That obviously hasn't happened. So there's room for the major light bulb manufacturers to exist and for us to grow."

—Glen Macnow



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## Making It

## Pythons, Macaws And Computers

David Allen was a psychology and Soviet studies major who dropped out of pre-engineering, and Steven Volk majored in zoology before paying his way through dental school raising pythons and macaws for pet stores.

Not exactly orthodox educations for the high tech entrepreneurs who run Tallgrass Technologies, a leading independent supplier in the data storage industry. But that is hardly the only unorthodox thing about them.

Allen, who started Tallgrass in 1981 with \$5,000 in personal savings, was determined to set up a high tech business, not in Silicon Valley but in his native Kansas. He named the company, which is headquartered in the Kansas City suburb of Overland Park, after the Great Plains' vanishing virgin prairie grasses.

Then there was Allen's initial creation, an efficient control unit for hard disks. He says computer manufacturers "wouldn't touch it with a 10-foot pole. It flew in the face of conventional wisdom."

So he and Volk packaged the controller with a hard disk system that could be attached to microcomputers and started selling directly to retailers. Late in 1981, when IBM introduced its personal computer, Allen made the Tallgrass system IBM-compatible within two weeks. "We started taking off right along with IBM," he recalls.

Six months later Tallgrass was first on the market with a combination hard disk and cartridge tape backup, further enhancing PCs' storage capabilities and making them more affordable for small businesses. Sales, \$1 million in 1981, reached \$60 million last year. "A hard disk without a tape," Allen says, "is sort of like a car without a spare tire."

Both Allen and Volk have tinkered with technology since boyhood, Allen earning his Federal Communications Commission ham radio license at 16, and Volk, at 19, winning the bid to set up the closed circuit television surveillance system for the Reagan campaign when the Republican convention was held in Kansas City in 1976.

Lacking a formal engineering education has not "locked me into the theoretical groundings," says Allen, 37, "and that's an asset." And what Allen's unconventional background has done

David Allen (left) and Steven Volk check equipment produced by their Tallgrass Technologies, started with \$5,000 in 1981 and now in the

\$60 million sales range. Allen owns 60 percent of the company and Volk, 30 percent. Employees own the rest.



PHOTO: CHUCK KNEYSE—BLACK STAR

for creating high tech designs, Volk's flair for marketing has done for getting Tallgrass recognized.

Unable to afford an advertising agency, Volk, 31, mounted a memorable ad campaign using his macaws and other exotic birds to liven up the message, promising to "cut a path" through the "hard disk jungle." And he oversaw creation of a company trade show booth

complete with 18-foot palm trees, a waterfall and a temple where a humorous but well-aimed video presentation shows swashbuckler "Kansas Jones" extolling the virtues of Tallgrass systems.

Of their success, Allen says: "We were in the right place at the right time with the right product."

—Alexandra Mezey

## An Invention To "Save Marriages"

It all started over a wet floor. "My wife kept yelling at me to mop the bathroom floor after I took a shower," remembers Wellington Haight. "I hated that job."

So Haight invented a better way—a shower curtain that sticks to the tub and keeps the water in.

He began formulating the invention, which he felt was "guaranteed to save marriages," while he was in a store that sold semipermanent storm windows. "They fasten to the inside of the window with magnets," he says. "I thought, why couldn't I do the same thing with a shower curtain?"

He went to plastic companies to test materials, researched adhesives and

eventually produced the Wellington Curtain Mate—two sets of 40-inch strips of white vinyl with magnetic crystals embedded inside. One set goes on the shower curtain, and the other goes on the wall.

Now, two years later, as head of Wellton, Inc., of Edine, Minn., he is selling his product to numerous mail order houses.

"A lot of my time went into convincing them to buy it," he says. "It's tough getting mail order houses to buy a single item. They would rather buy from someone who has 10 or more products. After I called them over and over again, and sent photos and samples,



## Making It

they finally got tired of hearing from me and said yes."

The price is \$7.99. "It costs around \$2.10 to make, and the mail order houses give me \$2.99," Haight says. Organizations for the handicapped manufacture the curtain for him.

Haight sends about 1,000 curtain strips to a catalog company, and it does the mailing. "When the supply gets low, they tell me, and I send out more," he says.

He may have only one product for mail order houses, but he has more than one line of work for himself. Haight owns a custom car company that converts hardtops into convertibles. He also is a partner in a construction firm that builds homes and commercial properties. He has a development company that builds motels, hotels, office buildings and apartment houses.

And the mail order houses can expect more products. Haight is working on other inventions.

He is mum on what they are. "We inventors are afraid people might steal our ideas," he says.

—Jill Barnes

*A wifely complaint led Wellington Haight to invent a shower curtain that really keeps water off the bathroom floor.*



PHOTO: LAYNE KENNEDY

## Finding Strength For Survival

It was the fall of 1983, and just about everything that could go wrong at Treco Products had done so.

A \$130,000 Small Business Administration-guaranteed loan, applied for nearly a year before, had virtually been spent before it was finally received. Founder Ted R. Ehrenfried's middle son, Brook, became a casualty during the October truck bombing of the U.S. Marine barracks in Beirut. And drive mechanisms in more than 300 "Powerstretchers," the \$295 leg-muscle-stretching devices that the Newport News, Va., company makes for karate enthusiasts and other athletes, had failed.

"The company probably almost went down the tubes," recalls Ehrenfried. But, born of troubled times, it survived adversity. Ehrenfried, 47, expects it to do \$3 million in sales this year—a far cry from the \$15,000 that Treco (named after Ehrenfried's initials) did in 1982, the year it was founded.

In 1981 Ehrenfried had unexpectedly lost his job as marketing head for U.S. operations of a West German construction equipment firm and was "about as close to a nervous breakdown as I'll ever get." The oldest of his three sons, Scott, then a college senior, challenged him to start a company. Why didn't Ehrenfried, whose hobby was woodworking, make a stretching machine like the one he had made for the youngest son, Barry? It had been so effective in helping athletes increase leg flexibility that Ehrenfried had sold one to the studio where Barry was training in karate.

When Scott got orders for two machines from local colleges, his reluctant father got down to business, preparing more machines for a demonstration in Atlanta that produced orders for 36 more.

He and Scott put together a business plan. The first objective: Build a machine that was liability proof. (Ehrenfried used himself as a guinea pig to make sure the Powerstretcher was safe.) Second: Produce a machine that would last (it is now built of metal instead of wood).

For capital, Ted and Doris Ehrenfried raised nearly \$100,000 by selling their house and renting an apartment as well as selling two boats and a car.

How did the company survive the ter-

*Powerstretchers are paying off for Ted Ehrenfried, wife Doris and son Barry, who is testing one here.*



PHOTO: WILLIAM ABOUTLIE

rible autumn of 1983? To protect the firm's credibility, Ehrenfried hired extra people and paid overtime rates to repair all machines that had failed. ("The obligation just starts when you deliver a product to your customer," Ehrenfried says.)

Sales went well, and because of that, Ehrenfried was able to swing a second SBA-guaranteed loan in 1984—this time for \$270,000.

The company now has 41 employees, including Doris, Barry and Scott.

Reggie T. Kidd, an engineer at Ehrenfried's former company, worked evenings and weekends on the promise of stock in the company. He is now vice president of engineering.

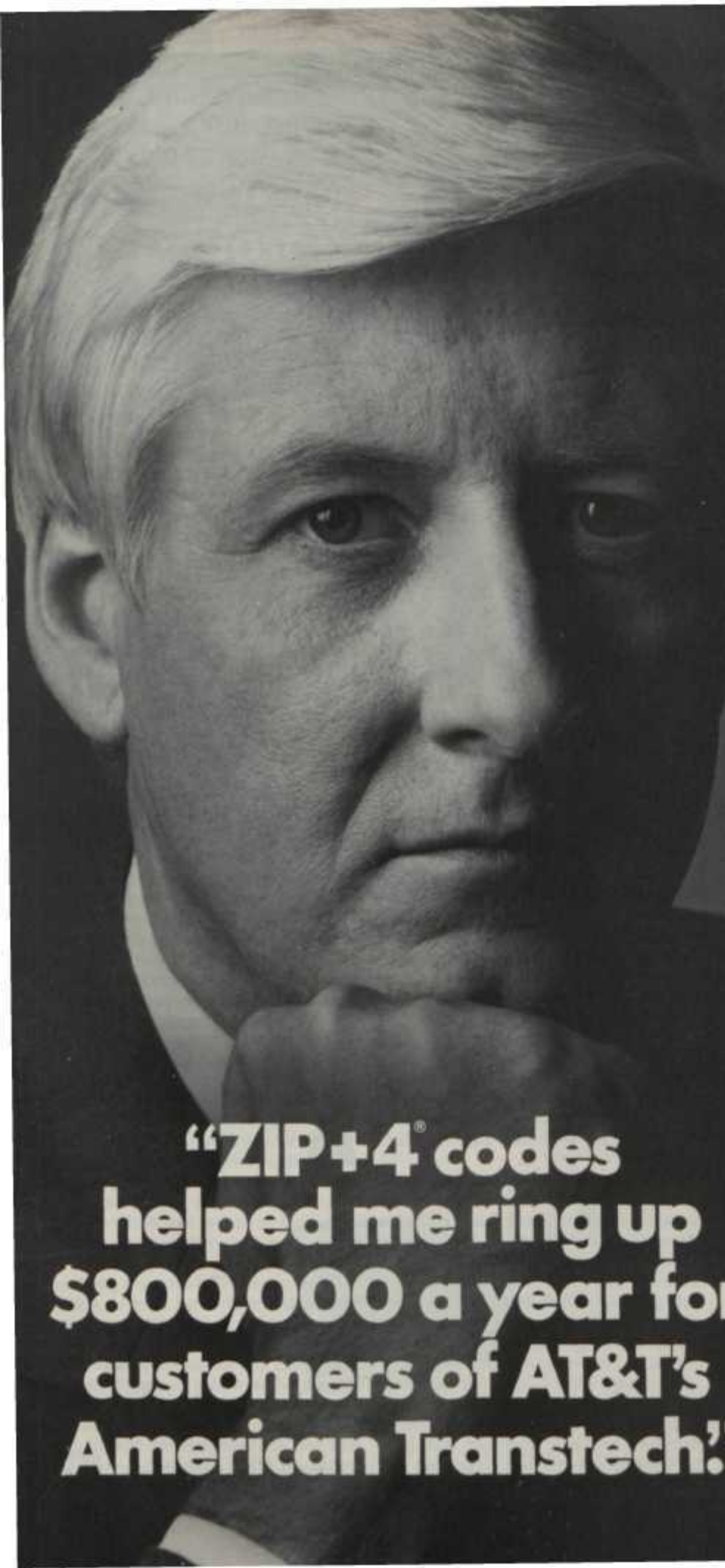
Doris Ehrenfried was not enthusiastic about the business at first—she thought it made more sense for her husband to get a new job, not become an entrepreneur. She is vice president of operations.

Brook Ehrenfried, who had been given a 25 percent chance of living following the Beirut blast, outwitted the odds, is retired from the Marines on disability and is studying accounting. He lost full use of his right hand, and there was damage to thigh muscles.

For muscle therapy, he used a Treco Powerstretcher. "Today," his dad says, "he doesn't even walk with a limp."

—Sharon Nelton





"It was easy," says Robert Turley. "I just convinced my company, American Transtech, that we could save over \$800,000 a year in mailing costs by using ZIP + 4 codes, the Postal Service's computerized sorting system for First-Class Mail.

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# Pumping Up Partnerships

By Ray Brady

**W**hen takeover king T. Boone Pickens announced last summer that Mesa Petroleum, the company he founded and turned into a \$400 million a year oil and gas producer, would no longer be raiding other companies, another part of his announcement really made investors' ears prick up.

He said he was turning Mesa into a master limited partnership, with publicly traded stock. That meant that once the transformation was complete, Mesa would return a yield far above that of the average corporation—a return in double digits, no less.

Such limited partnerships are relatively new—the oldest, Apache Petroleum Partners, dates all the way back to 1981—but there are now more than 20, and prospects are that their numbers will increase.

Why? With crude oil prices way down, many oil companies have slowed their drilling. That means they lose the tax benefits that come with oil exploration. Mesa, which had paid little tax for 10 years due to sizable drilling deductions, was headed for a fate worse than death—it could have wound up paying the basic corporate income tax rate of 46 percent.

So more and more oil companies are spinning off part of their oil and gas properties or turning completely into partnerships, the route Mesa is following. Instead of shares, Mesa's stockholders will have units in the firm.

A master limited partnership pays no taxes, passing along its gains and tax benefits to the investor without the Internal Revenue Service first taking a cut.

"A sexy vehicle," says Catherine W. Montgomery, an analyst with the investment firm of Merrill Lynch. Says Phil Dodge, an oil analyst with the investment company of Donaldson, Lufkin and Jenrette: "It's a very attractive item for an investor in the 50 percent bracket."

Why should an oil company do all this restructuring?

For one thing, since creating a limited partnership raises the yield to stockholders who get the new units, inves-

*T. Boone Pickens, chairman of Mesa Petroleum, surprised Wall Street by turning his firm into a limited partnership. The stock price jumped.*

PHOTO: SHELLEY KATE—BLACK STAR



tors may be willing to pay more for the company's basic stock. Mesa Petroleum shot up in price after Pickens' announcement.

Even spinning off part of a company's assets will help the price of the stock. Enserch, Lear Petroleum and Unocal all wanted to keep some oil wells to help finance other business lines. They spun off some of the properties, and their securities rose on Wall Street.

Also, many oil companies are desperate to fight off raiders attracted by stock prices often lower than the asset value of a company's wells. Last winter Diamond Shamrock abruptly canceled a merger with Occidental Petroleum. With profits headed down and the possibility of a dividend slash, Diamond Shamrock was prime bait for any raider who came swimming along.

So, among other things, the company put 35 percent of its U.S. producing properties into a partnership. Diamond Shamrock Offshore Partners can buy more properties and keep searching for oil and gas, but, in the meantime, a big part of the company has been made

*A master limited partnership pays no taxes, passing along its gains and tax benefits to the investor.*

safe from raiders—and the parent company itself is less attractive to acquirers.

For the investor, there are caveats: Thomas E. Hassen, of Morgan Stanley & Company, warns that investors should not be blinded by the high yield some of the partnerships promise. Ask yourself this question, he says: How long can the partnership keep providing that kind of return?

One partnership promises to pay investors \$3 a unit every year through 1989. Its properties, however, may have the ability to pump up net revenues of only about \$10 a unit in all—meaning that in less than four years, its profit-making ability could run dry.

A partnership paying out a too-high return will, in time, have to cut back on its spending to keep that high payout. For an oil company, the prime way to cut back on spending is to reduce exploratory drilling—which may mean diminished ability to pump up oil, and earn money, in the future.

Tax reform could also make it more difficult for the partnerships to operate. What is popularly called "Treasury I," the first of the tax reform proposals to come out of Washington, specifically put a limit on the number of persons who could be in a partnership. In President Reagan's tax proposals, however, the partnerships escaped unscathed—so oilmen are hoping that the President's program will prevail.

**A**lso, at least some of the benefits of a partnership represent a tax-deferred return of capital. So there can be a capital gains liability when the units are sold; how much is determined by how much the individual investor has received in income, other cash distribution and depletion allowance.

Other questions: Is there a good market for the units—can they be sold off with no problem? Does the firm have a diversified spread of oil and gas properties? Does the partnership have the financial wherewithal to find or buy reserves to replace oil it sells off?

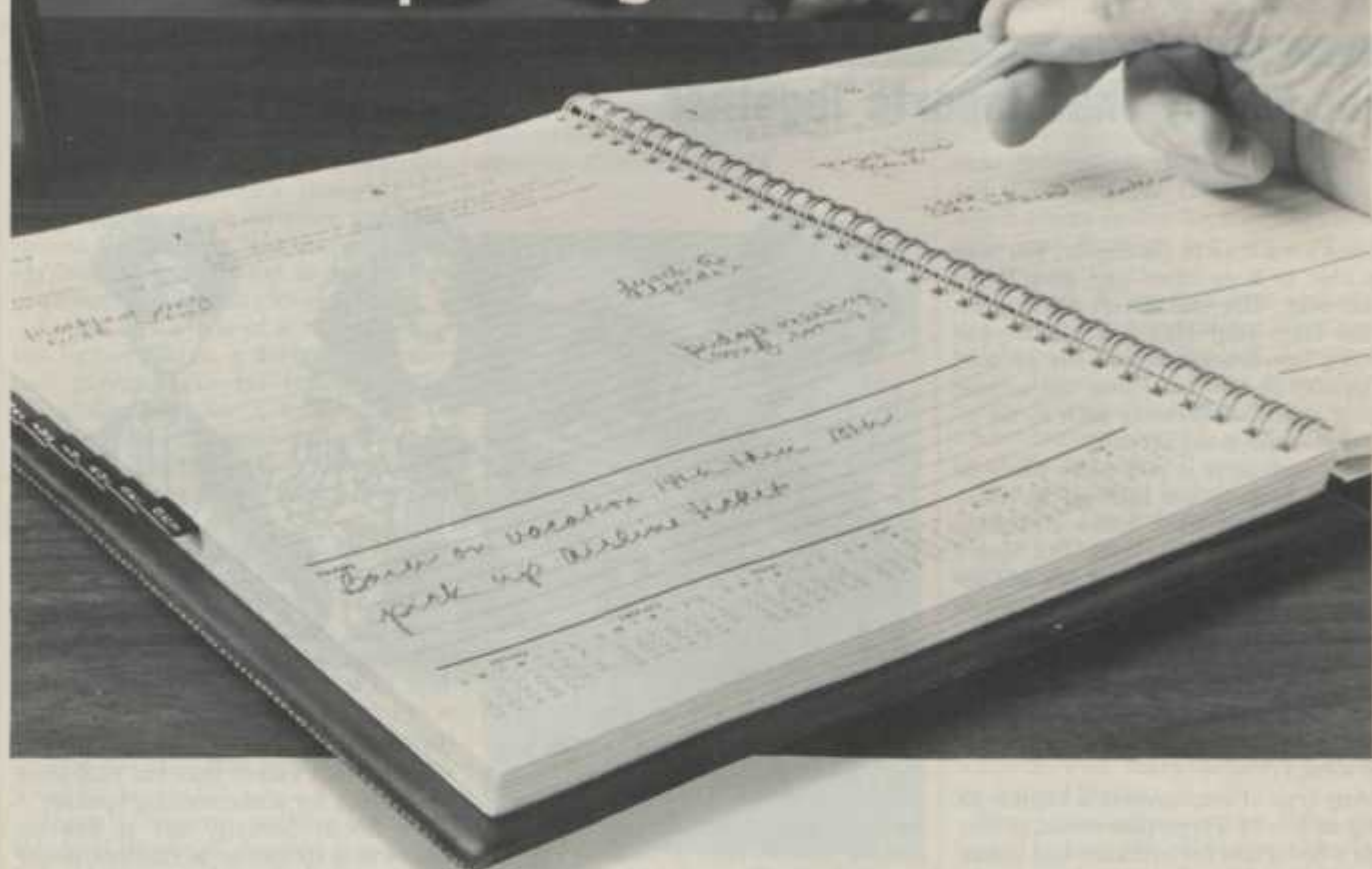
In the final analysis, you should go into one of these partnerships like you would any other investment—with your eyes open to both the opportunities and the perils. ■

Ray Brady is the business correspondent for CBS News.



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## PERSONAL

# For Your Tax File

*Employers will be faced with a host of new reporting and withholding rules for employee benefits.*

By Gerald W. Padue, C.P.A.

## The Family That Reports Together

If you keep it all in the family, you may be able to keep more and give Uncle Sam less. You can divert taxable income from your high bracket to your child's low bracket or to your spouse, who may be able to shelter the income using special deductions such as an individual retirement account.

This technique is now more likely to succeed because the Internal Revenue Service has agreed to follow a pro-taxpayer decision in the U.S. Tax Court without any further appeal or additional cases.

Both the spouse and minor children can be placed on the payroll. (But check local laws on employment of minors. New York, for example, prohibits employing children under age 14 for clerical work.)

Any type of employment is eligible as long as it is of a type that would permit you a deduction for ordinary and necessary business expense. The compensation must be reasonable, however, for the work performed. Proper records are essential because the payment is to a relative. The IRS will certainly want



ILLUSTRATION: WILLIAM COULTER

to make sure that no "phantom payroll" is being established.

How much can be shifted? In 1985 a single taxpayer can receive \$3,430 of earned income free of federal tax. If the child contributes \$2,000 of this to an IRA, a total of \$5,430 can be shifted.

In the case of a spouse the joint return eliminates any shifting of taxable income, but the earnings can provide

the ability to deduct a full \$2,000 for the spouse's IRA rather than the \$250 limit for an IRA for a nonworking spouse.

No Social Security tax is due on wages to a spouse or to children under 21 from an unincorporated business. A spouse and children are also exempted from unemployment insurance taxes. If the employer is a corporation, however, both taxes must be withheld.

## For Once, Rules With Advantages

The 1984 Deficit Reduction Act produced, among other things, the most comprehensive review of taxable and nontaxable employee benefits since the enactment of the 1954 Internal Revenue Code. For employers, the review has meant a host of new reporting and withholding rules for perks that are no longer tax-free.

Late last summer the IRS issued guidelines for reporting and withholding on taxable, noncash fringes. The agency says that when final regulations appear, requirements could differ from the guidelines, but that any changes would not be retroactive.

In general, the proposals are rather

liberal, giving employers a number of options in deciding when during the year benefits were given to employees. That will permit substantial flexibility in withholding, but all choices for a given year must be made by the next January 31, so that proper W-2 forms can go to employees and withheld tax can be sent to the IRS.

An important option for employers is a choice to treat the value of benefits provided during the last two months of a calendar year (or any shorter period) as having been paid in the following year. In other words, only benefits provided from January 1 through October 31 would be considered as paid in 1985,

with November and December benefits considered paid in 1986.

There are two advantages in this choice. An employer will, of course, have the use of those otherwise withheld taxes for a longer time. And salary administration could be easier because the three-month period from November 1 to January 31 can be used to determine the value of fringes for each employee for the preceding 10 months and to arrange appropriate withholding on taxable noncash perks.

Even within this special accounting rule, the employer has several options. He or she may:

- Use the rule selectively for some benefits but not for others.
- Select a different period for one benefit than for another.
- Change the period for which the rule has been used without notifying the IRS.



# Squeeze Play

By Thomas S. LaMarre

**T**he snowstorm gripping St. Louis late last winter made spring training seem eternal weeks away on Rollie Latina's calendar. Nevertheless, Latina's thoughts focused on America's summer game. A tanned leather hide was draped across his drawing board. Next to it sat a box of prototype baseball gloves.

Latina, 61, is one of a rare breed in the United States, a designer of baseball gloves. Like his father, Harry ("The Glove Doctor"), before him, he works at the St. Louis headquarters of Rawlings Sporting Goods Company, a division of Ohio-based Figgie International, Inc.

The legendary Red Smith wrote that the Latinas together had done "more to depress batting averages than Sandy Koufax, Christy Mathewson and Walter Johnson rolled into one."

"I don't pay much attention to that sort of stuff," says Latina. "But I'm a bit sentimental about that particular column because Red really knew and loved his baseball."

There is, however, nothing sentimental about Rawlings' decision to continue U.S. production of baseball gloves at a time when Korean, Taiwanese, Philippine and Japanese factories turn out 98 percent of all gloves.

Although Figgie International does not disclose Rawlings' sales figures, aggregate sales of Figgie's consumer product group (to which Rawlings is the largest contributor) were \$125.4 million in fiscal year 1984. According to Rawlings President Robert Burrows, baseball equipment accounts for half of the firm's business.

How is the company meeting the competition, and what enables its domestic manufacturing operations to survive? Says public relations counsel James E. Ladesich: "Rawlings' strategy has been to maintain leadership by its innovations, market share and service policies. Although the company imports gloves in certain price ranges, it also manufactures two lines of baseball gloves in the United States: the Gold Glove series and the American series."

Top-of-the-line Rawlings gloves with the familiar red label and "Made in

*Rollie Latina, like his father before him, is a glove designer for Rawlings. Latina's designs help the firm compete against imports.*



PHOTO: MARCORM

U.S.A." stamp are used by 336 major league and 1,188 minor league players, as well as many college players and serious amateurs.

Innovation and quality have become the key to remaining in competition with products manufactured with cheap foreign labor, and that is true of Latina's gloves. He refines lines of gloves and alters designs for particular players. Sandy Koufax, the great Los Angeles Dodger pitcher, laughed at a basket-weave design when Latina first showed it to him. But Koufax did adopt the glove.

"I saw that glove last year when I was in Washington," says Latina's bearded understudy, Bob Clevenhagen. "It's part of an exhibit about sports at the Smithsonian Institution."

But baseball gloves are not the company's only product line. Rawlings is the supplier of official major league baseballs, which are hand-stitched in Haiti. The company makes uniforms and Rawlings/Adirondack bats in the United States. It employs 1,680 people and markets its products throughout the United States and many other na-

*The all-American game gets most of its equipment from abroad, but one U.S. company is going the distance.*

tions. Besides the building on Delmar Street in St. Louis, there are three Rawlings plants in Missouri, a worldwide distribution center in Springfield and the Tennessee Tanning Company, which makes covers for Rawlings baseballs and leather for some of the gloves.

Rawlings/Adirondack bats are made in a group of unpretentious light gray buildings in Dolgeville, N.Y., a town of 2,500. There, 100 workers turn out a million wooden bats every year, using timber harvested within a 100-mile radius of the factory.

But production is only half what it used to be. The Dolgeville factory faces the two-pronged problem of foreign competition and the growing popularity of aluminum bats.

According to Bruce R. Mang, Rawlings/Adirondack plant manager, one reason the factory has survived is that it is basically a minimum-wage operation. Low labor costs allow the plant to compete with manufacturers outside the United States.

Some unusual economies have also helped to keep the plant alive. The factory is heated entirely with wood shavings left over from bat-making. And to generate extra revenue, some milled wood is sold to furniture companies.

While Rawlings slugs it out with the giants of the industry, the Nocona Athletic Goods Company of Nocona, Tex., survives by making high-quality equipment for a very small segment of the market. Declares President Jim Storey: "We believe that the best can be done in this country, and we believe in protecting American jobs."

Some U.S. companies, however, have found it more profitable to switch rather than fight. The Wilson Sporting Goods Company of River Grove, Ill., recently shifted production of its popular A2000 professional gloves to Japan.

Some industry observers claim it is only a matter of time before all baseball equipment is manufactured outside the United States. Not Rawlings. Says Jim Ladesich: "The company will continue to explore domestic manufacture for whatever products can be competitively priced at the point of sale."

Meanwhile, with Rollie Latina retiring soon, Bob Clevenhagen waits for his turn at bat. ■

Thomas S. LaMarre is a Southfield, Mich., free-lance writer.



# Where I Stand

*Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.*

## 1. Should Exports Play Second Fiddle To Foreign Policy Goals?

Trade sanctions or embargoes have been used as a tool of U.S. foreign policy with growing frequency in recent years. Proponents of sanctions say they deter foreign countries from doing things contrary to the U.S. national interest. Critics argue that such measures backfire, that they are ineffective in changing behavior and instead they result in lost exports, markets and jobs—a high price to pay at a time of record trade deficits. Should export sanctions be a tool of American foreign policy?

## 2. A National Sales Tax?

Business has debated tax reform like no other issue facing Congress this year. One suggestion is to enact a business transactions tax—a levy on the value added to products at each stage of handling. A 10 percent levy, akin to a national sales tax, could raise \$150 billion a year. Proponents say the money could be used to lower corporate tax rates while leaving in place such threatened items as the rules for depreciating equipment. Opponents say such a tax could hit rich and poor alike and therefore is unfair. Should Congress enact a business transactions tax as part of a revenue-neutral reform package?

## 3. A New Source Of Capital For Small Business?

The biggest challenge facing many small firms is raising risk capital. One proposal to make that easier is the creation of a hybrid debt-equity security called a small business participating debenture. It would use tax breaks to heavily subsidize investment in companies having less than \$1 million in capital. Those favoring the idea say the subsidies would be less than the cost of the Treasury's lost revenues. Opponents say such securities would invite fraud, would end up costing money and could raise interest rates. Is the participating debenture a good idea?

## Verdicts On Terrorism, Takeovers, Malpractice Laws

*Here is how readers responded to the questions in the September issue's Where I Stand poll.*

	Yes	No	Undecided
Should military action be included on the list of possible steps to be taken in retaliation against terrorist attacks on U.S. citizens or property abroad?	73%	16%	11%
Should federal controls be enacted to make unfriendly corporate takeovers more difficult?	31%	56%	13%
Should medical malpractice laws be revised to make liability insurance less expensive for physicians and patients?	89%	5%	6%



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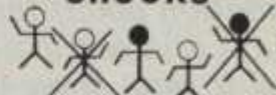
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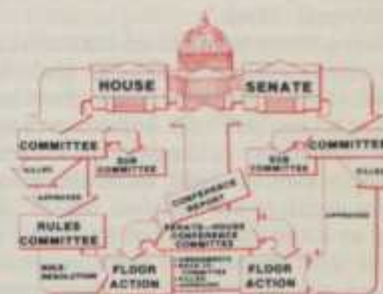
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# The Ravages Of Time

By Richard J. Chapel

**Y**ou don't have to be a globe-hopping executive to experience jet lag. Crossing more than two time zones is often enough to disrupt your body's normal day-night rhythm. Similarly, changing work shifts generally raises havoc with many biological cycles that are regulated by an internal "clock."

Researchers have shown that most of our clocks run on a 25-hour cycle instead of 24. The extra hour gives our bodies a "cushion" for adjusting to minor schedule changes. External prompts such as light, dark and meal-times regulate our internal timers. As long as these cues are not much out of phase with the internal clock, resetting is easy, and body rhythms remain regular. Shift the external cues by as much as an hour, and the internal timing experiences a "lag"—it can't catch up fast enough.

So, the problem with multiple time zone changes and the resulting jet lag is that, during the adjustment period, not only are you out of phase with people and events, but some of your own internal functions may be out of phase with each other. The same principle is at work when you change shifts on the job.

For the business executive who expects to perform at peak efficiency upon arrival at a destination, jet lag is more than a travel side effect. Indeed, it can be considered a major liability. Likewise, workers struggling to adjust to a new work shift are not in a condition to perform at peak efficiency. It is no wonder that business is showing a strong interest in research into methods of adjusting to time shifts.

Lt. Col. Curtis Graeber is leading a team of researchers investigating multiple time shift displacement at the National Aeronautics and Space Administration's Ames Research Center in California. His research has identified a body temperature rhythm that strongly influences ability to sleep. "We now know that a rising body temperature will cause you to awaken, no matter how tired you are," he says. "The rise and fall of body temperatures is one of the master internal clocks." Graeber

*Crossing more than two time zones is often enough to cause jet lag, a disturbance of your body's normal day-night rhythm that can keep you*

*Business travel and shifts in work schedules take their toll on your body. But diet and rest can help.*

*from peak performance. Many business travelers do not prepare well to minimize jet lag's effects.*



PHOTO: T. MICHAEL 422A

says that the cycle may take days to adjust itself, so the key to dealing with a time shift is to fight it effectively.

Planning for an impending time zone displacement is something business travelers do not do very well, Graeber says. "We've found that people just don't handle the day before departure properly. They start out behind the eight ball by cramming in last-minute work. You should minimize the last-minute rush. Don't get on the plane exhausted and expecting to sleep. Your internal body temperature cycle may not allow it."

Graeber says that a new prescription drug may offer a means of getting needed sleep—in spite of an out-of-phase internal clock: "The generic name for this drug is triazolam. It helps you achieve a sound sleep for 4 to 5 hours and rapidly clears out your system. For short trips where adjustment can't take place naturally, triazolam is effective."

Charles F. Ehret, a biologist with the Argonne National Laboratory in Illinois, is the author of a book entitled *Overcoming Jet Lag*. The book has received a lot of publicity because of a diet that Ehret says is effective against jet lag.

Adjusting to the disruptions of jet lag or shift work involves more than dietary changes, Ehret says. "The diet is

just a focal point, but with it, travelers can adjust to as many as five zones within a day after landing."

The diet, which must be started three days before a trip, involves a pattern of "feast" and "fast" days. It sounds complicated, but Ehret has summarized the diet on a pocket card he sends out on request. Send a stamped, self-addressed envelope to Anti-Jet-Lag Diet, Argonne National Laboratory, 9700 S. Cass Avenue, Argonne, Ill. 60439.

For combating jet lag, sleep is important, but research indicates other adaptive measures can also help you deal with time zone changes:

1. Start your trip rested.
2. En route, avoid caffeine and alcohol. Drink juice or water.
3. Avoid candy or other high sugar foods. Have fruit or nuts instead.
4. At your destination, assume the pattern of the new time zone. Get outside and stay active. Sleep according to your new "clock."
5. Plan for jet lag. Knowing that your performance may be reduced the first day, you should schedule lightly.

Time shifts decrease alertness and ability to concentrate. Warding off jet lag may require special "travel training" combining dietary adjustments and physical fitness. Successful business travel may indeed be a matter of the survival of the fittest. **■**

*Richard J. Chapel is a free-lance writer from Worcester, Mass.*



# Refining Responsibility

By Del Marth

*His model oil rig symbolizes Paul Howell's company and his approach to business. He wants to know what is going on in as much detail as*

*possible, for a hands-on approach to management. He advocates careful financial control as well.*



PHOTO: DAN CONNOLLY-LIAISON

The secretary pulls closed the yards of transparent draperies in Paul N. Howell's 18th floor executive suite, reducing the morning glare from the glass facade of Houston's skyline. The millionaire oilman sets aside a sheaf of papers on his desk and, closing the middle button of his suit coat, strides across the room to greet his visitor.

He is as tall and lean as a basketball player, even at age 67. But his formal manner dispels any thought of talking sports or repeating the latest office joke. To make an impression, the visitor might better show some concern over debt.

Howell worries about American banks going broke if the Third World cancels its debts to them, about Saudi Arabia cashing in its \$60 billion in U.S. Treasury notes and bringing down the American economic system, about the ever-increasing magnitude of the U.S. national debt.

"I am not a pessimist," he says. "I think there is hope."

Nevertheless, he is so concerned about the future, particularly Ameri-

ca's, that last year he wrote a book urging fellow business leaders to use their influence to help save the nation from fiscal collapse.

Titling it *Our Democracy's Game—A Fiscal Time Bomb*, Howell paid for its publication and sent copies to hundreds of chief executive officers. Himself the chairman and CEO of Howell Corporation, a tightly run oil and gas exploration and production firm, author Howell chastizes the business community for priding itself on "profit inclinations" while being "heedless of history." He urges formation of "a leadership cadre to assure the nation's future fiscal soundness."

A student of history, Howell sees debt as a "demanding master." His own company pays for drilling from its cash flow, not from bank loans or funds solicited from limited partners.

"We are a bankrupt nation, not physically, but in our willingness to be realistic about fiscal restraints," he says. "We are daily digging a financial hole, and nobody knows how we are going to come out of it."

How was the book received?

*When Paul N. Howell urges business to put its fiscal house in order, he is preaching what he practices.*

"Oh, I got a lot of response, but not much in terms of people saying, 'Hey, I think we should start getting our ship in shape.' And I'm not surprised at that."

Nor were business leaders surprised that Howell wrote the book. A registered Republican who has raised funds for national political candidates, including Texan John B. Connally, Jr., Howell not only talks and writes fiscal conservatism but practices it from the time he gets out of bed. The suit he puts on is usually bought off the rack, although he could afford tailor-mades; he fights the traffic each morning, driving himself to work; and on long distance trips he will catch a commercial flight when possible, instead of using the company's private plane, because the cost is less.

Such monetary management has been Howell's style for 32 years, from the day he bought two trucks with his savings and started his own trucking line hauling fuel around the bayous of Louisiana. Howell had no particular yearning to drive trucks, or own them, but in 1953 he had just finished eight years of active duty in the U.S. Navy and was looking about for his own business.

"As a chemical engineering graduate [Louisiana State University, Class of '41], I really wanted my own refinery," he says. Two years later he found one, in San Antonio, and sold his trucking business to buy it by making a small down payment and taking over the company's debts. It was the beginning of Howell Corporation, a firm that in 1984 recorded revenues of \$140 million and net earnings of \$3.7 million.

"I have never wanted to be a big company," Howell says. "The bigger you are, the harder it is to get in a hands-on mode. I'm interested in what it costs to operate a truck, what the specific problem is in the lab."

But Howell and his San Antonio refinery did grow, making naphtha and other solvents and marketing them in the Southeast.

In 1960 Howell bought a second refinery in Corpus Christi, but he had learned that "refining was more personally satisfying than it was profitable." So he began converting the refining operations to production of



## LESSONS OF LEADERSHIP

## Refining Responsibility

*"Philosophically, I think there's more money to be made in bad times than in good, if someone is willing to take the risks."*

specialty hydrocarbons. Today Howell Hydrocarbons, Inc., the most specialized refinery operation in the United States, is one of four wholly owned subsidiaries of the parent Howell Corporation.

Howell Hydrocarbons "makes some 100 different products such as low tolerance fuels, auto racing gasolines and special blends," Howell says. The subsidiary, for example, provides the reference fuel for the Environmental Protection Agency's standards for auto efficiency and emission characteristics.

For Howell, 1969 became a memorable year. He retired from the Navy Reserve as a rear admiral, and he took Howell Corporation public. Eager to begin oil and gas exploration, he formed a second subsidiary, the publicly owned Howell Petroleum Corporation.

"We have interests today in wells in about 12 states and Canada," Howell says, "or a total of about 3,000 wells."

Both the parent corporation and the petroleum firm were listed on the New York Stock Exchange, and "that created some confusion," says Howell.

"I was chairman of both, and we felt we had to clarify the situation. So last year Howell Corporation purchased all outstanding publicly held stock of the petroleum corporation, and it came off the board, leaving only Howell Corporation."

Howell Petroleum remains the most exciting, and risky, of the four wholly owned subsidiaries. (Besides the petroleum exploration unit and the hydrocarbon company, the parent firm owns the Howell Crude Oil Company and Lake Coal Company, a cluster of southeastern Kentucky mines.) Howell admits it takes luck to find oil. In 1981 he got especially lucky.

**T**hat year Howell Petroleum paid \$3.5 million to the federal government for drilling rights at Main Pass Block 64, an offshore quadrant 20 miles east of the Mississippi delta. "Fortunately, the first hole was a discovery well," Howell says. The site now produces more than 2,700 barrels daily.

Howell believes "the future of the oil and gas business is great, no matter how it may currently be viewed." Although he expects the price of crude oil will drop further in the future, he says, "I can't think of any better time to be in the exploration business than right now." Costs of land and drilling are down, he says, and "philosophically, I think there's more money to be made in



bad times than in good if someone is willing to take the risks."

Convinced interest rates will increase as the government funds the deficit, he believes tomorrow's markets will belong to strong companies whose internal cash-generating capacity insulates them from the rising cost of borrowed capital. Howell Corporation is such a company.

Paul Howell runs a tight ship where employees, as well as dollars, are concerned. "We are demanding of our people—we expect performance," he says.

The 263 employees do not view their boss as a Scrooge, however. Refinery workers and their families, for example, look forward to Howell's Christmas party, an annual company highlight at which the management generously distributes service and safety awards as well as substantial bonuses.

The same type of employee benefits, paid for entirely by the corporation, go to every employee, from corporate officers to truck drivers.

In addition, Howell encourages all employees to buy stock in the company, "because we want our employees to think like stockholders." For every 75 cents the employee puts up, the company puts up 25 cents.

Because managers and directors also own stock, Howell says, "the management thinks like stockholders, too. Therefore, our financial success as managers is directly tied to the success of the company. There are no 'golden parachutes.'"

Howell and his family own 57 percent of the corporation. He has four chil-

dren, all sons. Two have chosen not to come into the company, opting instead to run their own real estate businesses. A third is working his way up in the corporation, and the oldest, Steven, 36, was elected president in April after 10 years of corporate service.

"I am skittish about nepotism," says the elder Howell, "so much so that of our eight board directors, seven are outsiders. I am the only employee on the board."

All except one also are over 65, a fact that comforts Howell because of their experience. On the other hand, all the presidents of the corporation and subsidiaries except one are under 40. It is a signal that the elder Howell is loosening his control.

Says son Steven: "Paul has cut down to 8-hour days from 16-hour days, but he still lets you know when he is not pleased with something you've done."

Paul? Not Dad? "We're strictly on a professional basis at work. You can imagine, too, I would lose credibility with people I work with if I said, 'Dad said this or Dad said that.'"

**H**owell's newfound leisure time is spent at the family's horse ranch 60 miles outside of Houston, or at an oceanfront home in Jamaica. But guests are often business friends, and conversation is often about new ventures. Among the latest is Howell's joint effort with a banker friend and the Coca-Cola food division to begin citrus production on large tracts they have bought in Belize in Central America.

He has not given up on investments in the United States, of course, despite concerns heightened by a current re-reading of the 11 volumes of Will and Ariel Durant's *The Story of Civilization*, which enables him to review evidence of what brought about the falls of earlier nations.

"We are too willing to say there is going to be some miracle that saves us from our own excesses, but the Durants point out that has never happened in history," Howell says.

"I fault the business community for many of our fiscal problems. We know better. We know that when we continue to truck to Washington for special privileges, somebody's got to pay for it. Yet every one of us, businessman or individual, seems to have his hand out."

If there is an exception, it is Paul N. Howell. He runs his business the way he would like the country run—hands on instead of hand out. **■**



# Congressional Alert

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members of Congress should be sent either to U.S. Senate, Washington, D.C. 20510 or to U.S. House of Representatives, Washington, D.C. 20515.

## ISSUE

## BUSINESS IMPACT

## BUSINESS MESSAGE

### Balanced Budget Amendment

The Senate Judiciary Committee has reported a constitutional amendment that would require the government to adopt a balanced budget and limit the growth of taxes. If this legislation passes, the federal government would be obligated not to spend more than it takes in.

Members of the House and Senate: Support congressional efforts to approve an amendment to the Constitution requiring a balanced budget.

### Tax Reform/Simplification

The House continues working on tax reform legislation; the Senate Finance Committee will not begin working out final details until the House passes its bill. The administration's proposed changes in the Accelerated Cost Recovery System would increase the cost of capital for equipment. The administration's foreign tax credit provisions would lead to an increase in the overall effective tax rate on foreign-source income of U.S. businesses.

Members of the House and Senate: Carefully consider any proposed changes in the current tax law, especially capital cost recovery and foreign tax treatment proposals. Tax reform should stimulate capital formation, encourage technological advancement, enhance international competitiveness and help create jobs.

### Grove City

Legislation that would overturn the 1984 *Grove City v. Bell* Supreme Court decision limiting application of civil rights statutes to educational institutions that receive federal funds is pending before the House Rules Committee. This bill would subject businesses to new affirmative action rules and possibly encourage private lawsuits.

Members of the House and Senate: Support the administration's alternative bill for a simple reversal of the Supreme Court's *Grove City* decision. Oppose broad expansion of federal regulatory authority under the guise of reversal.

### Superfund

The taxing authority of the five-year, \$1.6 billion toxic waste cleanup program known as Superfund expired September 30. In debate over continuing Superfund, the major issue is the tax that supports the program. Businesses will be affected by the amount authorized and taxing authority used.

Members of the House and Senate: Reauthorize Superfund at reasonable funding levels. Superfund should be structured to meet cleanup goals without unnecessary expense. General revenues are the most equitable source of funding. Oppose any new or increased taxes for Superfund.

### Line-Item Veto

If the President had the authority to veto spending proposals individually, he would have more opportunities for reduction of inefficient government programs. Currently, the President is empowered to veto only an entire appropriations bill, which contains funding for hundreds of programs.

Members of the House and Senate: Support presidential line-item veto authority. The line-item veto would promote fiscal discipline and reduce wasteful government spending.

### Product Liability

Hearings have been held in the Senate on legislation that would replace widely differing state product liability laws with a uniform federal statute. Sen. Robert W. Kasten (R-Wis.) offered a bill that would lower consumer prices by reducing legal expenses and excessive product liability insurance costs.

Members of the House and Senate: Support Sen. Kasten's bill to establish uniform rules in product liability cases in state and federal courts.



# Editorials

*A lack of credibility on Capitol Hill. And retirement savings plans that should be saved.*

## Maybe It's Time For A Truth-In-Budgeting Law

When Congress adopted its budget resolution for fiscal 1983, it accepted President Reagan's recommendation that food-stamp costs be cut to \$10.8 billion.

The decision ostensibly put members of Congress behind the President's efforts to curb a fast-growing program that had been abused by many beneficiaries.

Although Congress made the cut part of its budget resolution, it failed to revise the food-stamp law to spread the lower appropriation over a full year. As a result, the \$10.8 billion ran out in nine months. Congress then approved an additional \$1.2 billion for food stamps for the rest of the year.

That ploy offers an insight into why congressional budget resolutions, which are supposed to be firm limits on spending, have lost so much credibility as a fiscal planning tool. Two private-

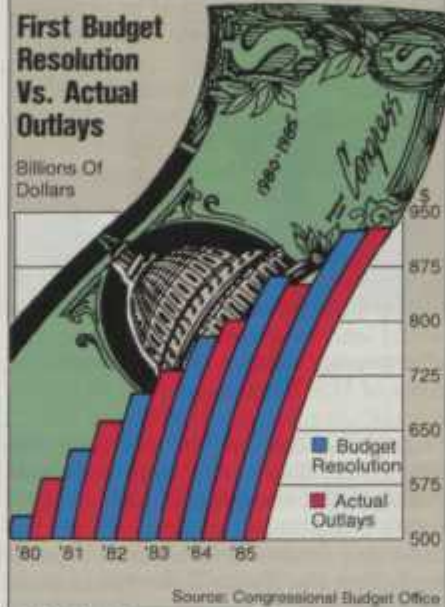


CHART: BARRY CERNIK

## Don't Tamper With The 401(k) Plans

Section 401(k) plans have two important advantages as a means of building retirement income. They benefit many workers who would not otherwise have access to a private pension plan, and their combined assets provide a source of capital for economic growth.

More than 20 million workers now participate in 401(k) plans set up and administered by employers. Included are 4.5 million employees of a half-million small businesses.

It is the growing use of such plans among smaller businesses that makes them such an important addition to the mix of worker benefits.

Workers in these plans have part of their salaries deposited in retirement accounts, and the money is tax-free until withdrawn. Reasons for withdrawal, in addition to retirement, include separation from the company administering the particular plan and death or disability

of the participant. Withdrawal is also permitted in cases of hardship.

Despite the 401(k) plans' popularity and their effectiveness as a vehicle for retirement security, some tax reformers want to eliminate or restrict them.

It would make no sense to abolish a popular and workable program at the very time that ensuring adequate retirement income for all workers is becoming a matter of concern for both the private and public sectors. And some of the restrictions being proposed for the 401(k) plans could have the same result as elimination because they would deter workers from participating.

With so many genuine concerns to be addressed in the long and complex tax reform debate ahead of the nation, the 401(k) programs offer a classic case for application of the wise saying so often ignored in Washington: "If it ain't broke, don't fix it."

sector experts on the budget process have documented the reasons for this loss, and their findings should concern all taxpayers.

William P. Orzechowski and Cesar V. Conda, economists at the U.S. Chamber of Commerce, state that, "despite the apparent order given to the budget process" by the budget reform act of 1974, "the system remains full of holes."

Though one of the main goals of the reform act was fiscal discipline, they point out, federal spending has more than tripled—to nearly \$940 billion—in the 11 years it has been in effect.

In just the last four years, the national debt has gone from \$1 trillion to \$2 trillion. That development alone should be enough to persuade Congress that its procedures for setting fiscal policy are defective.

The initial budget resolution passed in preparation for each fiscal year is supposed to control spending for that year, but actual spending continues to outrun the supposed limits of the resolution, the economists point out (see chart).

What is needed, they say, are modifications to the budget procedures to "reduce Congress' margin for clandestine budgetary activities."

Among their recommendations: a weekly budget scorecard so watchdog groups, as well as members of Congress, could monitor performance; more responsibility on committees and subcommittees for meeting terms of the budget resolution; line-item veto authority that would enable the President to reject pork-barrel and other budget-busting spending proposals interspersed among otherwise acceptable items; and safeguards to prevent advocates of new or expanded programs from underestimating their costs.

Members of Congress delight in demanding truth-in-advertising, truth-in-labeling and truth in many other areas of market activity. It is time they began to apply similar standards to their handling of the money of the people who elect them.



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